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7-208

11/11/04



Patents  
Serial Number: 10/673,086

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: **James et al.**

Serial No.: **10/673,086** Attorney Docket No. **99-1220-CIP**

Filed: **September 26, 2003**

For: **APPARATUS AND METHOD FOR BAGGING ICE**

To: MS: Missing Parts  
Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

July 6, 2004

**PETITION UNDER 37 C.F.R. 1.47(a) & (b) and 35 U.S.C. 116, SECOND PARAGRAPH:**

**INVENTOR REFUSES TO JOIN IN APPLICATION FOR PATENT**

**&**

**RESPONSE TO NOTICE TO FILE MISSING PARTS**

**OF NONPROVISIONAL APPLICATION**

Dear Sir:

Responsive to the Notice to File Missing Parts of Nonprovisional Application mailed January 5, 2004 in the above-styled nonprovisional patent application (a copy of which is enclosed herewith), please find enclosed a Petition under 37 C.F.R. 1.47(a) & (b), and 35 U.S.C. 116, Second Paragraph and supporting documentary evidence, indicating the factual circumstances relied on to establish that the non-signing inventor, Mark Metzger, refuses to

~~07/09/2004 HLE333 00000070 10673086~~

01-FC-2001  
02-FC-2051

385.00-0P  
65.00-0P

Patents  
Serial Number: 10/673,086

execute the application papers, and thus, join in application for patent; and to further establish, that Southeast Cooler Corporation (hereinafter SE Cooler) of 1520 Westfork Drive, Lithia Springs, Georgia 30122, has sufficient propriety interest in the patent application and, as such, may make application for patent on behalf of and as agent for all inventors.

Please also find enclosed a check in the amount of \$1320.00 to cover the \$65.00 late declaration surcharge, the 1.47(a) & (b) Petition fee of \$130.00, the basic filing fee of \$385.00, and the Petition for Extension of Time fee of \$740.00 under 37 C.F.R. 1.136(a) for 4 months.

**CERTIFICATE OF EXPRESS MAILING**

I hereby certify that this correspondence, along with any papers referred to therein as being attached or enclosed therewith, is being deposited with the United States Postal Service Express Mailing with sufficient postage in an envelope addressed to the MS: Missing Parts, Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450 on:

7-6-04

(Date)

Cynthia Pilato

(Printed or Typed) Name of the person

(mailing the paper or fee)

Cynthia Pilato

(Signature of the person mailing)



Patents  
Serial Number: 10/673,086

**PETITION UNDER 37 C.F.R. 1.47(a) & (b)**

The available joint inventor, Charles James, and SE Cooler, as a party having sufficient propriety interest in the patent application, hereby submit the present 1.47(a) & (b) petition to establish that the non-signing inventor, Mark Metzger, refuses to execute the application papers, and thus, join in application for patent; and to further establish, that SE Cooler has sufficient propriety interest in the patent application and, as such, may make application for patent on behalf of and as agent for all inventors.

Specifically, as shown in the attached written communications (see Exhibits A, B and D) ✓  
to Mark Metzger's legal counsel, Mr. Stephen H. Myers, a copy of the application papers (including specification, claims, drawings and declaration) was sent to the address of Mark Metzger's legal counsel, as is required under MPEP 409.03(d) and 37 CFR 1.47(a) – as such, it is clear that Mr. Metzger understands exactly what he is being asked to sign, but refuses to accept the application papers. Instead, Mark Metzger, by and through his legal counsel Mr. Stephen H. Myers, refuses to cooperate with the execution of the Declaration and related application papers; thus, delaying examination and prosecution of same (see Exhibit C). ✓

Regardless, SE Cooler, as a 37 CFR 1.47(b) applicant, hereby submits, under MPEP 409.03(f)(C), that it has sufficient propriety interest in the patent application and, as such, may make application for patent on behalf of and as agent for all inventors. The following legal support for SE Cooler's arguments are supported by legal precedent, copies of supporting case law and court decisions are enclosed herewith.

Specifically, Mr. Metzger was an employee hired to invent for SE Cooler. That is, Mr. Metzger, was hired to devote his efforts and conduct experiments for a specifically assigned purpose – developing and perfecting an ice bagging apparatus. As such, any invention resulting from the performance of such work (i.e., Mr. Metzger’s assigned duties) belongs to SE Cooler. Standard Parts Co. v. Peck, 264 U.S. 52 (1924). It is well established that an employer that hires or engages someone for consideration to devote his or her time to developing a product or process becomes the owner of that property and all inventions incident to it. Lion Mfg. Corp. v. Chicago Flexible Shaft Co., 106 F.2d 930 (1939).

As such, because Mr. Metzger, via express and implicit contracts, was hired to devote his mental faculties and exercise his inventive ability for the benefit of his employer, SE Cooler, any inventions conceived by Mr. Metzger in the course of his employment under SE Cooler, and as a consequence of his pursuit, belong in equity to SE Cooler; therefore, Mr. Metzger is obligated to equitably assign to SE Cooler any patent that may be obtained on the invention. Prince Mfg., Inc. v. Automatic Partner, Inc., 191 U.S.P.Q. 450 (1976); Keller v. Clark Equip. Co., 210 U.S.P.Q. 742 (1981). Therefore, SE Cooler hereby asserts equitable title to said invention and all other intellectual property arising from and related thereto.


Additionally, Mr. Metzger, during his employment as an officer of SE Cooler (i.e., Vice-President of Win-Pak Products, Inc., wholly owned by SE Cooler) had a fiduciary duty to act in SE Cooler’s interest and not deprive it of any “corporate opportunity.” As such, Mr. Metzger owes a duty to assign all inventions and patents to SE Cooler. North Branch Products, Inc. v. Fisher, 131 U.S.P.Q. 135 (1961). Failure to make such an assignment is a breach of his fiduciary duty.

In conclusion, please find enclosed a copy of the declaration as filed today, July 6, 2004, with the USPTO. As you will notice, the declaration is signed by the available joint inventor, Charles James, with the signature block of the non-signing inventor, Mark Metzger, left blank.

Please also note, that pursuant to 37 C.F.R. 1.47(a) and (b), MPEP 409.03(e), that last known address of Mark Metzger is 5647 West Irma Lane, Glendale, Arizona 85308.

Applicant respectfully submits that diligent efforts have been made to contact and provide Mark Metzger with an opportunity to join in prosecution of the above-referenced application for patent, but that Mr. Metzger has continually refused to cooperate with same. Nonetheless, and in view of the foregoing presentation of documentary, factual and legal evidence, the available joint inventor, Charles James, and SECooler, as the party in interest, respectfully request that this Petition be granted and that examination of the above-referenced non-provisional application commence in due order.

Respectfully submitted, this 6<sup>th</sup> day of July 2004

  
\_\_\_\_\_  
Ashish D. Patel  
Reg. No. 50,177

MYERS & KAPLAN  
INTELLECTUAL PROPERTY LAW, L.L.C.  
1899 Powers Ferry Road  
Suite 310  
Atlanta, GA 30339  
Telephone: (770) 541-7444  
Facsimile: (770) 541-7448  
E-Mail: apatel@mkiplaw.com



Patents  
Serial Number: **10/673,086**

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

In re Application of: **James et al.**

Serial No.: **10/673,086** Attorney Docket No. **99-1220-CIP**

Filed: **September 26, 2003**

**For:** APPARATUS AND METHOD FOR BAGGING ICE

**EXHIBIT A**



**MYERS & KAPLAN**  
**INTELLECTUAL PROPERTY LAW, L.L.C.**

**COPY**

1899 Powers Ferry Road  
Suite 310  
Atlanta, GA 30339

PATENTS, TRADEMARKS, COPYRIGHTS  
AND RELATED MATTERS

TELEPHONE (770) 541-7444  
FACSIMILE (770) 541-7448  
EMAIL: [jmyers@mkiplaw.com](mailto:jmyers@mkiplaw.com)

March 11, 2004

**CONFIDENTIAL ATTORNEY-CLIENT PRIVILEGED INFORMATION**

Mr. Stephen H. Myers, LLC  
P.O. Box 51222  
Lafayette, LA 70505-1222

Re: Mark Metzger  
Our File No. 99-1220-DA; RA2CIP

Dear Mr. Myers:

It is our understanding that you still represent Mr. Mark Metzger. If our understanding is correct, please immediately advise.

Please find enclosed a copy of a patent application which is owned by our client, Southeast Cooler, and in which your client, Mr. Mark Metzger (formerly Vice-President of Win-Pak Products, Inc.), is listed as a co-inventor. Please further find enclosed a Declaration that Mr. Metzger must sign in order to be properly joined as a co-inventor.

Please note that your client, Mr. Metzger, has previously refused to sign the Declaration and/or cooperate with the filing of the aforementioned patent application, and as such, we are formally requesting his cooperation in executing the enclosed Declaration so that our client may proceed with prosecution of the patent application before the United States Patent and Trademark Office.

Please further understand that Mr. Metzger's past and present refusal to cooperate with the prosecution of the present application is a breach of his employment and fiduciary duties to Southeast Cooler, and that failure to sign and return the enclosed Declaration will result in a further breach of his employment and fiduciary duties to Southeast Cooler.

Please do not hesitate to contact me with any questions and/or comments. Your assistance in this matter is appreciated.

Sincerely,  
Myers & Kaplan, L.L.C.

Ashish D. Patel, Esq.

ADP/cp  
Enclosures





Patents  
Serial Number: **10/673,086**

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

In re Application of: **James et al.**

Serial No.: **10/673,086** Attorney Docket No. **99-1220-CIP**

Filed: **September 26, 2003**

**For:** APPARATUS AND METHOD FOR BAGGING ICE

**EXHIBIT B**



**COPY**

**MYERS & KAPLAN  
INTELLECTUAL PROPERTY LAW, L.L.C.**

1899 Powers Ferry Road  
Suite 310  
Atlanta, GA 30339

PATENTS, TRADEMARKS, COPYRIGHTS  
AND RELATED MATTERS

TELEPHONE (770) 541-7444  
FACSIMILE (770) 541-7448  
EMAIL: jmyers@mkiplaw.com

March 11, 2004

**CONFIDENTIAL ATTORNEY-CLIENT PRIVILEGED INFORMATION**

Mr. Stephen H. Myers, LLC  
P.O. Box 51222  
Lafayette, LA 70505-1222

Re: Mark Metzger  
Our File No. 99-1220-DA; RA2CIP

**URGENT  
REMINDER  
APRIL 9, 2004**

Dear Mr. Myers:

It is our understanding that you still represent Mr. Mark Metzger. If our understanding is correct, please immediately advise.

Please find enclosed a copy of a patent application which is owned by our client, Southeast Cooler, and in which your client, Mr. Mark Metzger (formerly Vice-President of Win-Pak Products, Inc.), is listed as a co-inventor. Please further find enclosed a Declaration that Mr. Metzger must sign in order to be properly joined as a co-inventor.

Please note that your client, Mr. Metzger, has previously refused to sign the Declaration and/or cooperate with the filing of the aforementioned patent application, and as such, we are formally requesting his cooperation in executing the enclosed Declaration so that our client may proceed with prosecution of the patent application before the United States Patent and Trademark Office.

Please further understand that Mr. Metzger's past and present refusal to cooperate with the prosecution of the present application is a breach of his employment and fiduciary duties to Southeast Cooler, and that failure to sign and return the enclosed Declaration will result in a further breach of his employment and fiduciary duties to Southeast Cooler.

Please do not hesitate to contact me with any questions and/or comments. Your assistance in this matter is appreciated.

Sincerely,  
Myers & Kaplan, L.L.C.

Ashish D. Patel, Esq.

ADP/cp  
Enclosures



Patents  
Serial Number: **10/673,086**

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

In re Application of: **James et al.**

Serial No.: **10/673,086** Attorney Docket No. **99-1220-CIP**

Filed: **September 26, 2003**

**For:** APPARATUS AND METHOD FOR BAGGING ICE

**EXHIBIT C**

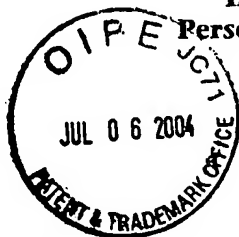
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Law Offices of

## STEPHEN H. MYERS, L.L.C

International, Corporate, Commercial,  
Personal Injury, Tax Litigation and Planning

STEPHEN H. MYERS  
RICHARD H. MORGAN



March 22, 2004

Mr. Asish D. Patel  
1899 Powers Ferry Road  
Atlanta, Georgia 30339

Re: Mark Metzger  
Our File No. 99-1220-DA  
RA2CIP

Dear Sir:

*I have received your letter of March 11, 2004. It appears that your client has not told you the true facts surrounding the invention of the automatic bagging system. The true facts establish:*

- 1. That Mr. Charles James had absolutely no part in the design or development of the automatic ice bagging system;*
- 2. That the automatic bagging system was designed and built entirely by Mr. Mark Metzger, and was fully functional and operational before the system was demonstrated to Mr. Charles James and Mr. Steve Krieger in Phoenix, Arizona, in March of 2002;*
- 3. That Southeast Coolers did not pay for, develop or financially assist in the invention or development of the automatic ice bagging system;*
- 4. That Southeast Coolers hired Mr. Metzger to run a division of Win-Pak, and to market the system only after it was complete and operational; and,*
- 5. Southeast Cooler then manufactured the system using Mr. Metzger's same design demonstrated to Mr. James and Mr. Krieger back in 2002. All functions, designs and operations of the system remain unchanged.*

*My client informs me that he was never asked by Southeast Coolers whether they could patent his design; nor has Mr. Metzger ever agreed to have Southeast Coolers patent his invention. Mr. Metzger has never been approached, much less given any rights to the system to Southeast Coolers or Win-Pak. Mr. James had no involvement at all, at anytime, with the development of the system. Any representation by Mr. James to the contrary is simply untrue. Documentation and statements by numerous individuals easily establishes that the system was operational and fully functional in its current design long before Mr. Metzger knew Mr. James, or became affiliated with Southeast Coolers. There is no fiduciary duty or any obligation owed by Mr. Metzger to Southeast Coolers.*

*Please be advised that Southeast Coolers fired Mr. Metzger, and filed a patent on the ice bagging system that they did not own. This patent application was rejected, and Mr. Metzger's application to this same apparatus was granted by the United States Patent Office. Any further attempt to exploit my client's patent, or his intellectual property rights, will result in forcing my client to review and consider all legal options available to him in order to protect his property rights.*

Tel: (337) 266-2225  
Fax: (337) 266-2258  
E-mail: [shmyers@worldnet.att.net](mailto:shmyers@worldnet.att.net)  
[www.louisianasalestaxbuster.com](http://www.louisianasalestaxbuster.com)

Also Member of  
D.C. Bar

*Mr. Asish D. Patel*

*March 22, 2004*

*Page -2-*

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*As such, we would kindly request that you cease and desist from further use of my client's intellectual property, and any attempt on your part to market any ice bagging systems utilizing this design.*

*Should you have any questions or comments, please do not hesitate to contact either me, or my paralegal, Renee Thornton.*

*With kindest regards, I remain*

*Very truly yours,*

  
STEPHEN H. MYERS

*SHM:rmt*



Patents  
Serial Number: **10/673,086**

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

In re Application of: **James et al.**

Serial No.: **10/673,086** Attorney Docket No. **99-1220-CIP**

Filed: **September 26, 2003**

**For:** APPARATUS AND METHOD FOR BAGGING ICE

**EXHIBIT D**



**MYERS & KAPLAN**  
**INTELLECTUAL PROPERTY LAW, L.L.C.**

1899 Powers Ferry Road  
Suite 310  
Atlanta, GA 30339

**FILE**

PATENTS, TRADEMARKS, COPYRIGHTS  
AND RELATED MATTERS

TELEPHONE (770) 541-7444  
FACSIMILE (770) 541-7448  
EMAIL: [apatel@mkiplaw.com](mailto:apatel@mkiplaw.com)

April 29, 2004

Mr. Stephen H. Myers, LLC  
P.O. Box 51222  
Lafayette, LA 70505-1222

Re: Mark Metzger  
Apparatus and Method for Ice Bagging  
Our File No. 99-1220-DA; RA2CIP

Dear Mr. Myers,

Pursuant to your March 22, 2004 written communication, it appears that your client does not wish to cooperate with the execution of the previously sent Declaration in connection with the above-referenced invention.

Moreover, thank you for apprising us that your client filed a patent application for the ice bagging apparatus. We will, accordingly, take the appropriate actions.

Additionally, and as indicated in your written communication, please kindly provide us with all documentation and statements by third parties that reference and/or relate to information regarding Mr. Metzger's alleged design and practice of the above-referenced invention.

Sincerely,  
Myers & Kaplan, L.L.C.

Ashish D. Patel, Esq.

ADP/cp

Jul. 6. 2004 11:25AM Myers &amp; Kaplan

No. 2938 P. 2



PTO/SB/01 (08-03)

Under the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it contains a valid OMB control number.

# DECLARATION FOR UTILITY OR DESIGN PATENT APPLICATION (37 CFR 1.63)

☐ Declaration Submitted With Initial Filing **OR** ☒ Declaration Submitted after Initial Filing (surcharge (37 CFR 1.16 (e)) required)

Attorney Docket Number	88-1220-RA2-CIP
First Named Inventor	James et al.
<b>COMPLETE IF KNOWN</b>	
Application Number	10/873,088
Filing Date	09/28/2003
Art Unit	3876
Examiner Name	

I hereby declare that:

Each inventor's residence, mailing address, and citizenship are as stated below next to their name.

I believe the inventor(s) named below to be the original and first inventor(s) of the subject matter which is claimed and for which a patent is sought on the invention entitled:

APPARATUS AND METHOD FOR BAGGING ICE

(Title of the Invention)

the specification of which

☐ is attached hereto**OR**☒ was filed on (MM/DD/YYYY) 09/26/2003 as United States Application Number or PCT International

Application Number 10/873,088 and was amended on (MM/DD/YYYY) (if applicable).

I hereby state that I have reviewed and understand the contents of the above identified specification, including the claims, as amended by any amendment specifically referred to above.

I acknowledge the duty to disclose information which is material to patentability as defined in 37 CFR 1.56, including for continuation-in-part applications, material information which became available between the filing date of the prior application and the national or PCT international filing date of the continuation-in-part application.

I hereby claim foreign priority benefits under 35 U.S.C. 119(a)-(d) or (f), or 365(b) of any foreign application(s) for patent, inventor's or plant breeder's rights certificate(s), or 365(a) of any PCT International application which designated at least one country other than the United States of America, listed below and have also identified below, by checking the box, any foreign application for patent, inventor's or plant breeder's rights certificate(s), or any PCT International application having a filing date before that of the application on which priority is claimed.

Prior Foreign Application Number(s)	Country	Foreign Filing Date (MM/DD/YYYY)	Priority Not Claimed	Certified Copy Attached?	
				Yes	No
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

☐ Additional foreign application numbers are listed on a supplemental priority data sheet PTO/SB/02B attached hereto.

[Page 1 of 2]

This collection of information is required by 35 U.S.C. 115 and 37 CFR 1.63. The information is required to obtain or retain a benefit by the public which is to file (and by the USPTO to process) an application. Confidentiality is governed by 35 U.S.C. 122 and 37 CFR 1.14. This collection is estimated to take 21 minutes to complete, including gathering, preparing, and submitting the completed application form to the USPTO. Time will vary depending upon the individual case. Any comments on the amount of time you require to complete this form and/or suggestions for reducing this burden, should be sent to the Chief Information Officer, U.S. Patent and Trademark Office, U.S. Department of Commerce, P.O. Box 1450, Alexandria, VA 22313-1450. DO NOT SEND FEES OR COMPLETED FORMS TO THIS ADDRESS. SEND TO: Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450.

If you need assistance in completing the form, call 1-800-PTO-9199 and select option 2.

Received Time Jul. 6. 11:55AM



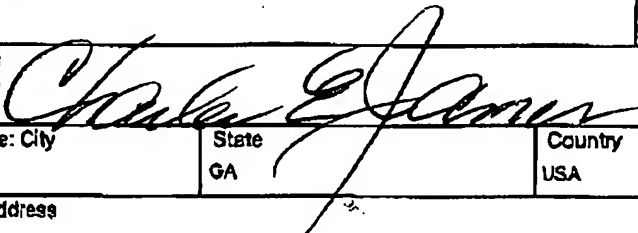
Jul. 6. 2004 11:25AM Myers &amp; Kaplan

No. 2938 P. 3

PTO/SB/01 (08-03)  
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U.S. Patent and Trademark Office; U.S. DEPARTMENT OF COMMERCE

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**DECLARATION — Utility or Design Patent Application**

Direct all correspondence to: <input checked="" type="checkbox"/> Customer Number: 30184 OR <input type="checkbox"/> Correspondence address below			
Name			
Address			
City		State	ZIP
Country	Telephone	Fax	
I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 U.S.C. 1001 and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.			
NAME OF SOLE OR FIRST INVENTOR:		<input type="checkbox"/> A petition has been filed for this unsigned inventor	
Given Name (first and middle (if any))		Family Name or Surname	
Charles		James	
Inventor's Signature		Date	
		7/6/04	
Residence: City	State	Country	Citizenship
Marietta	GA	USA	USA
Mailing Address			
453 Cove Drive			
City	State	ZIP	Country
Marietta	GA	30087	USA
NAME OF SECOND INVENTOR:		<input type="checkbox"/> A petition has been filed for this unsigned inventor	
Given Name (first and middle (if any))		Family Name or Surname	
Mark		Metzger	
Inventor's Signature		Date	
Residence: City		State	Country
Glendale		AZ	USA
Mailing Address			
5647 West Irma Lane			
City	State	ZIP	Country
Glendale	AZ	85308	USA
<input type="checkbox"/> Additional inventors or a legal representative are being named on the supplemental sheet(s) PTO/SB/02A or 02LR attached hereto.			

[Page 2 of 2]

Received Time Jul. 6. 11:55AM



LEXSEE 264 US 52

## STANDARD PARTS COMPANY v. PECK.

No. 160.

## SUPREME COURT OF THE UNITED STATES

264 U.S. 52; 44 S. Ct. 239; 68 L. Ed. 560; 1924 U.S. LEXIS 2477; 32 A.L.R. 1033

Argued January 15, 1924.  
February 18, 1924, Decided

## PRIOR HISTORY:

CERTIORARI TO THE CIRCUIT COURT OF  
APPEALS FOR THE SIXTH CIRCUIT.

CERTIORARI to a decree of the Circuit Court of Appeals which reversed in part a decree of the District Court in a suit brought by Peck to enjoin the Standard Parts Company from infringing his patent and for an accounting, etc. The District Court adjudged the equities in the company's favor and ordered Peck to assign to it the patent in question and any others, or applications therefor, based on inventions made by him in pursuance of his employment by the company's predecessor. The Court of Appeals allowed the company only certain rights as licensee.

## LexisNexis(R) Headnotes

LAWYERS' EDITION HEADNOTES: Master and  
servant — right to invention made by servant. —

## Headnote:

The result of the inventive skill of one employed at a stated compensation to develop a process and machinery to secure a certain result for the benefit of the business of his employer is the property of the employer, and not that of the employee.

[For other cases, see Master and Servant, I. in Digest Sup. Ct. 1908; I. in 1918 Supp.; I. in 1923 Supp.]

## SYLLABUS:

One who is employed and paid by another to develop a process and machinery for manufacturing a specified product, and who patents an invention made by him in the course of the employment, holds the patent for his employer. P. 58.

282 Fed. 443, reversed.

## COUNSEL:

Mr. Bert M. Kent and Mr. A. V. Cannon, with whom Mr. John M. Garfield and Mr. James P. Wood were on the brief, for petitioner, cited and discussed the following cases:

*Solomons v. United States*, 137 U.S. 342; *McAleer v. United States*, 150 U.S. 424; *Gill v. United States*, 160 U.S. 426; *Bloxam v. Elsee*, 1 Carr. & Payne, 558; *McClurg v. Kingsland*, 1 How. 202; *Hapgood v. Hewitt*, 119 U.S. 226; *Dalzell v. Dueber Mfg. Co.*, 149 U.S. 315; *Air Reduction Co. v. Walker*, 195 N.Y.S. 120.

Mr. George L. Wilkinson, with whom Mr. Charles L. Byron was on the brief, for respondent.

Any right of action which petitioner may have must be based upon an implied contract growing out of the employment of Peck by the Pontiac Company. Whether or not a contract may be implied depends upon the intentions of the parties.

There was no intention on the part of either Peck or the Pontiac Company that Peck should assign any inventions or patents. The parties did not have in contemplation the making of patentable inventions by Peck in performing the work for which he was employed. Peck's uncontradicted testimony is that it was not until after the contract had been entered into that any question arose as to the possibility of any patentable inventions being made by him in building the machines and in developing the processes, for which he was employed.

Specific performance will only be granted where it is clearly established by evidence that the party seeking it is entitled to it. *Hennessy v. Woolworth*, 128 U.S. 438; *Colson v. Thompson*, 2 Wheat. 336; *Dalzell v. Deuber Mfg. Co.*, 149 U.S. 315.

A license under a patent will only be implied where the circumstances are such as to estop the patentee from

264 U.S. 52, \*; 44 S. Ct. 239, \*\*;  
68 L. Ed. 560, \*\*\*; 1924 U.S. LEXIS 2477

denying the existence of such license. *Edison Co. v. Peninsula*, 101 Fed. 831. The same rule would seemingly equally apply to an implied agreement to assign a patent to an employer.

An employer is not entitled to a patent covering an invention made by an employee, in the absence of an express agreement to that effect, but only to a shop-right, or nonexclusive, nontransferable license thereunder. *Hapgood v. Hewitt*, 119 U.S. 226; *Dalzell v. Dueber Mfg. Co.*, 149 U.S. 320; *Pressed Steel Car Co. v. Hansen*, 128 Fed. 445; *Morton v. Andrews Co.*, 229 Fed. 150; *Niagara Co. v. Hibbard*, 179 Fed. 845; *Burpee v. Guggenheim*, 226 Fed. 219; *Johnson Co. v. Western Co.*, 178 Fed. 823; *Hildreth v. Duff*, 139 Fed. 141; *Barber v. National Co.*, 129 Fed. 372.

*Solomons v. United States*, 137 U.S. 342, did not refer to *Hapgood v. Hewitt*, 119 U.S. 226, doubtless because the title to the patent in suit was not at issue, but merely the right of the United States to a license thereunder. Subsequently, this Court, in *Dalzell v. Dueber Mfg. Co.*, 149 U.S. 315, a case in which was directly involved the title of an employer to a patent covering an invention made by an employee, followed *Hapgood v. Hewitt*, and held that the employer was not entitled to an assignment of the patent. *McAleer v. United States*, 150 U.S. 424, and *Gill v. United States*, 160 U.S. 426, were implied license cases.

No decision of a federal court has been found in which, in the absence of an express agreement, an employer has been held entitled to an assignment of a patent covering an invention made by an employee regardless of whether the employment was general, or for the special purpose of developing or devising certain specific machines, processes or improvements. *Barber v. National Co.*, 129 Fed. 370; *Pressed Steel Car Co. v. Hansen*, 137 Fed. 403; *Air Reduction Co. v. Walker*, 195 N.Y.S. 120.

The suit is barred by laches.

The consideration which Peck received under his contract was for the work which he did for his employer without regard as to whether or not he might make any patentable inventions. No consideration whatever has passed to him to support the assignment. *Dalzell v. Dueber Mfg. Co.*, 149 U.S. 315.

The shop-right of an employer is not transferable. *Hapgood v. Hewitt*, 119 U.S. 226; *Boston v. Allen*, 91 Fed. 248; *Barber v. National Co.*, 129 Fed. 370; *Gill v. United States*, 160 U.S. 426; *Pressed Steel Car Co. v. Hansen*, 137 Fed. 403; *Lane Co. v. Locke*, 150 U.S. 193; *Rowell v. Rowell*, 122 Wis. 21; *Bowers v. Lake Superior Co.*, 149 Fed. 983.

The procedure adopted by the Court of Appeals in this case would permit the piecemeal trial of cases in disregard of the evident intent of Equity Rule 30.

#### OPINIONBY:

McKENNA

#### OPINION:

[\*55] [\*\*239] [\*\*\*561] MR. JUSTICE McKENNA delivered the opinion of the Court.

Suit for injunction, preliminary and perpetual, and accounting for profits and damages, upon the ground of infringement of Letters Patent No. 1,249,473, issued to William J. Peck, respondent.

The bill is the usual one in patent cases. For answer to it the Standard Parts Company admits the use of the devices of the patent and alleges they were constructed under the supervision of Peck and under the terms and provisions of a contract dated August 23, 1915, by and between him and the Hess-Pontiac Spring and Axle Company, for and in behalf of the latter company and the Western Spring and Axle Company, and that it, the Standard Company, has succeeded to the entire assets, business and good will of those other companies, including all of their rights in said contract and devices. And the Standard Company avers that Peck was fully compensated for his connection with the devices.

As an offset and counterclaim, the Standard Company avers that all of the invention in the letters patent was made while Peck [\*\*240] was in the employ of its predecessors in business, the Axle Companies above mentioned, and that he was so employed for a period of approximately one year and eight months, and paid, while so employed, a salary of \$300 per month, and, at the conclusion of the employment, paid a bonus of \$660.

In answer to the counterclaim, Peck admits the contract but denies that it raised the contractual relations averred, or that it could be construed as passing any title to any inventions which might be incorporated in machinery built thereunder; and that neither the Axle Companies nor any person who might have purchased their assets, business and good will could have acquired any right, title or interest in the inventions.

[\*56] Admits the period of employment averred and that he received the compensation averred, and that at the conclusion of his employment he received a bonus of \$660, being the amount of \$10 for each 10% of reduction of direct labor cost as called for in said contract, the figures complied by the Hess Company showing a reduction of 66% in direct labor.

264 U.S. 52, \*56; 44 S. Ct. 239, \*\*240;  
68 L. Ed. 560, \*\*\*561; 1924 U.S. LEXIS 2477

Admits that prior to and during the continuance and subsequent to the period of his employment he practiced as an attorney at law and solicitor of [\*\*\*562] patents, but denies ever so acting for either the Hess Company or Western Company, and denies that he ever prepared or filed or executed any applications for either of the companies, or that any of such applicants matured into the patent in suit.

He denies the other allegations of the counterclaim.

On the case as thus presented, Peck's testimony and some other testimony was taken, and certain exhibits introduced, and the judgment of the District Court was, after a review of the decisions of this and other courts, "that the property in the invention belonged to the employer" (the Hess-Pontiac Spring and Axle Company), and that this property passed to the Standard Parts Company when it acquired the assets of the Axle Company, and that Peck holds the legal title in trust for the Standard Company. A decree was directed to be entered requiring an assignment of the legal title to the latter Company.

A motion for rehearing was made and denied, and on March 2, 1921, a formal decree was entered, adjudging the equities to be in favor of the Standard Company, and that Peck, within ten days from the date of the decree, assign and transfer to the company the legal title to the letters patent, and also transfer to it all other patents or pending applications for patents for inventions made by him, in connection with the processes and machinery developed [\*57] in the performance of the agreement with the Axle Company.

It was further adjudged that, if Peck failed to perform the decree, "then and in that event" the "decree shall have the same force and effect as such assignments and transfers would have had if made."

The Circuit Court of Appeals reversed the decree of the District Court in so far as it decreed an assignment and transfer of the patent in suit and other patents and applications from Peck to the Standard Company.

The court decreed a license to exist in the Standard Company in the machines, distinguishing, however, between the first six and the last four, in that, in the first six, title was in the Standard Company "wholly free from the monopoly of the patent," this being "within the spirit and fairly within the letter of Sec. 4899", n1 and that the Pontiac Company had a right to sell these six machines to the Standard Company free from the patent. As to the last four, it was decided, that the license to construct them was not assignable and could not pass to the Standard Company "by the ordinary purchase and sale of a business."

n1 Every person who purchases of the inventor, or discoverer, or with his knowledge and consent constructs any newly invented or discovered machine, or other patentable article, prior to the application by the inventor or discoverer for a patent, or who sells or uses one so constructed, shall have the right to use, and vend to others to be used, the specific thing so made or purchased, without liability therefor."

The court concluded its opinion as follows: "Defendant [Standard Company] may be advised that it can abandon any further claim of license as to these four machines and contest the patent on its merits — a matter about which we express no opinion — and otherwise it is clearly open to defendant to make what effort it can to establish a license on the theory of estoppel by reason of Peck's knowledge of [\*58] the building of these four machines without objection — if such knowledge and conduct occurred — or on the theory of a practical consolidation of the Pontiac Company with the present defendant — if their relationship has that character. (*Lane v. Locke*, 150 U.S. 193).

"The decree below is reversed and the record remanded for further proceedings in accordance with this opinion."

The courts reached different rulings because of different readings of the cases. That of the District Court was, that while the mere fact that one is employed by another does not preclude him from making improvements in the machines with which he is connected, and obtaining patents therefor, as his individual property, yet, if he "be employed to invent or devise such improvements his patents therefor belong to his employer, since in making such improvements he is merely doing what he was hired to do."

The Circuit Court of Appeals rejected this [\*\*241] test. It conceded, however, that the deduction of the District Court was sustained by *Solomons v. United States*, 137 U.S. 342; *McAleer v. United States*, 150 U.S. 424, [\*\*\*563] and *Gill v. United States*, 160 U.S. 426, and if correct, required the affirmance of the decree of the District Court. And the court admitted that there was no later declaration than that of those cases, nor any criticism of it. The court, nevertheless, dissented from it, subordinating it to other cases and reasoning, they establishing, it was considered, "that an invention does not belong to the employer, merely by virtue of an employment contract, as well when that employment is to devise or improve a specific thing as when the employment is to devise improvements generally in the line of the employer's business." And considering further that Peck's employment was to devise or improve a

specific thing, decided that his contract did not "of its own force, convey to the employer the equitable title to the patentable inventions" which he "might make in the course of its execution" but gave "to the employer a license only."

[\*59] It is going very far to say that the declaration of *Solomons v. United States*, repeated in subsequent cases, and apparently constituting their grounds of decision, may be put aside or underrated — assigned the inconsequence of dicta. It might be said that there is persuasion in the repetition. It cannot be contended that the invention of a specific thing cannot be made the subject of a bargain and pass in execution of it. And such, we think, was the object and effect of Peck's contract with the Hess-Pontiac Spring and Axle Company. That company had a want in its business, a "problem", is Peck's word, and he testified that "Mr. Hess thought probably" that he, Peck, "could be of some assistance to him [Hess] in working out" the "problem", and the "thought" was natural. Hess had previous acquaintance with Peck — his inventive and other ability, and approached him, the result being the contract of August 23, 1915, the material parts of which are as follows: "This Agreement Witnesseth, that second party is to devote his time to the development of a process and machinery for the production of the front spring now used on the product of the Ford Motor Company. First party is to pay second party for such services the sum of \$300 per month. That should said process and machinery be finished at or before the expiration of four months from August 11, 1915, second party is to receive a bonus of \$100 per month. That when finished, second party is to receive a bonus of \$10 for each per cent of reduction from present direct labor, as disclosed by the books of first party."

By the contract Peck engaged to "devote his time

to the development of a process and machinery" and was to receive therefor a stated compensation. Whose property was the "process and machinery" to be when developed? The answer would seem to be inevitable and resistless — of him who engaged the services and paid for them, they being his inducement and compensation, they [\*60] being not for temporary use but perpetual use, a provision for a business, a facility in it and an asset of it, therefore, contributing to it whether retained or sold — the vendee (in this case the Standard Company) paying for it and getting the rights the vendor had (in this case, the Axle Company).

Other meaning to the contract would confuse the relation of the parties to it — take from the Axle Company the inducement the company had to make it — take from the company the advantage of its exclusive use and subject the company to the rivalry of competitors. And yet, such, we think, is the contention of Peck. He seems somewhat absorbing in his assertion of rights. He yields to the Axle Company a shop right only, free from the payment of royalty but personal and temporary — not one that could be assigned or transferred. Peck, therefore, virtually assets, though stimulated to services by the Hess Company and paid for them — doing nothing more than he was engaged to do and paid for doing — that the product of the services was so entirely his property that he might give as great a right to any member of the mechanical world as to the one who engaged him and paid him — a right to be used in competition with the one who engaged him and paid him.

We cannot assent to this nor even to the limitation the Court of Appeals put upon Peck's contention. We concur with the District Court and therefore reverse the decree of the Circuit Court of Appeals.

Reversed.



LEXSEE 106 F2D 930

LION MFG. CORPORATION v. CHICAGO FLEXIBLE SHAFT CO. et al.

No. 6844

UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

*106 F.2d 930; 1939 U.S. App. LEXIS 3109; 43 U.S.P.Q. (BNA) 1*

September 13, 1939

**PRIOR HISTORY: [\*\*1]**

Appeal from the District Court of the United States for the Northern District of Illinois, Eastern Division; John P. Barnes, Judge.

**LexisNexis(R) Headnotes****COUNSEL:**

Charles L. Byron, George L. Wilkinson, and John A. Russell, all of Chicago, Ill., for appellant.

Ira J. Wilson, of Chicago, Ill., and John F. McCanna, of Rockford, Ill., for appellees.

**OPINIONBY:**

MAJOR

**OPINION: [\*\*31]**

Before MAJOR, TREANOR, and KERNER, Circuit Judges.

MAJOR, Circuit Judge.

This is an appeal from a decree dismissing plaintiff's bill of complaint for want of equity, and granting to defendants certain relief prayed for in their answer and counterclaim, considered by the court as a cross bill.

The bill of complaint alleged a cause of action in the nature of one for specific performance. It was alleged that the defendant Bruecker, on the 29th day of August, 1936, filed in the Patent Office of the United States his application for Letters Patent on an electric shaver invented by him; that he duly complied with the law in reference thereto and that, on the 25th day of May, 1937, United States Patent No. 2,081,694, governing said invention, was issued to him. It was alleged that the defendant Bruecker perfected said invention [\*\*2] while employed by the plaintiff for such purpose, and

that, as a result thereof, the patent was issued and held by Bruecker as trustee for the plaintiff and that the plaintiff became and was the equitable owner thereof. It was further alleged that, the defendant Bruecker, after leaving the employment of the plaintiff, [\*\*932] entered the employment of the defendant Chicago Flexible Shaft Company, and that the latter, with knowledge of plaintiff's equitable right and title to said invention, violated plaintiff's rights by the manufacture and sale of electric shavers embodying the said invention. The bill prayed for an injunction enjoining the defendants from the manufacture and sale of said electric shavers; that the defendant Bruecker be required to assign to plaintiff legal title to the patent and all rights pertinent thereto, and that the defendants be required to account for profits and damages sustained by the plaintiff by reason of the alleged infringement. The defendants, in their answer and counterclaim, admitted the issuance of the patent to the defendant Bruecker; claimed that the defendant Chicago Flexible Shaft Company, since the date of the issuance of the patent, [\*\*3] was and is the exclusive licensee thereunder; denied that the plaintiff acquired any title, legal, equitable or otherwise in said patent and denied infringement.

Plaintiff, in its answer to defendants' counterclaim reasserted that the patent issued to Bruecker was held by him as trustee for plaintiff. The answer also alleged that plaintiff had expended large sums of money for installing equipment for the manufacture of electric shavers made in accordance with the invention described in said patent and was ready and equipped to supply the trade and public with electric shavers embodying such invention. The novelty of the invention was conceded.

We are confronted with the question of the court's jurisdiction to entertain the bill of complaint, raised here for the first time. Each of the corporate parties is an Illinois corporation, and the defendant Bruecker is a citizen of Illinois. Federal jurisdiction is claimed in the bill on the ground that - "this action is brought

for infringement of certain Letters Patent of the United States of America, jurisdiction being based upon the Patent Laws of the United States and on the right of injunctive relief thereunder."

It is apparent [\*\*4] that if jurisdiction be found, it must be by reason of paragraph 7, section 41, Title 28, U.S.C.A., which confers jurisdiction upon the Federal Courts "of all suits at law or in equity arising under the patent \* \* \* laws."

Plaintiff argues that the primary relief sought by its bill is an injunction and an accounting for infringement of the patent, the legal title to which is held by Bruecker as trustee for the plaintiff. It states: " \* \* \* The corporate defendant through the cooperation of the defendant Bruecker, is infringing the patent in suit. This suit is primarily one for patent infringement and for injunctive relief, and the recovery of profits and damages. Incidentally, it is for an assignment of the patent in suit which is held in trust for plaintiff by the infringing defendants."

On the other hand, it is argued by the defendants that the primary purpose of the bill is to compel an assignment to plaintiff of the legal title to said patent and that the injunctive and accounting relief sought is in consequence of a decree ordering a transfer of title. Their position is thus stated: " \* \* \* No ground for an injunction or an accounting exists or is set forth in the bill, [\*\*5] unless and until the alleged implied contract to assign is enforced. Whether an assignment of the patent to plaintiff should be ordered in a court of chancery or not depends entirely upon the rules and principles of equity, and in no degree whatever upon any Act of Congress concerning patent rights." That the primary and controlling purpose of the bill was to compel an assignment of the legal title of the patent, by the defendants to the plaintiff, seems so certain as not to admit of serious dispute. The other relief sought was dependent thereon. The injunctive process of the court could not be invoked nor the claim of infringement maintained until and unless the plaintiff was entitled to and acquired legal title. True, plaintiff asserted its right to such title, but such assertion was appropriately denied. It follows that the issue thus made must be determined in favor of the plaintiff prior to the granting of the other relief sought. This being the situation, we think it is plain, under the authority of *Lockett v. Delpark*, 270 U.S. 496, 46 S.Ct. 397, 402, 70 L.Ed. 703, that the bill of complaint failed to state a cause of action "arising under the patent laws" and that the [\*\*6] District Court was without jurisdiction. In the *Lockett* case, the court reviewed numerous authorities involving jurisdiction, including that of *Wilson v. Sandford*, 10 How. 99, 13

*L.Ed. 344*. On page 504 of 270 U.S., on page 399 of 46 S.Ct., 70 L.Ed. 703, the court said: "In the common feature of *Wilson v. Sandford* and the case before us, jurisdiction [\*\*933] fails because the complainant in his bill seeks forfeiture of licensed rights in equity before he can rely on the patent laws to enjoin infringement of his patent rights and obtain damages therefor. There has been no variation from the authority and effect of the case cited on this point." (Citing cases.)

The facts in the instant case are stronger against jurisdiction than those in the *Lockett* case. There the plaintiff was the one who originally owned the legal title to the patent, but had granted a license to the defendant. Here, the legal title to the patent was as no time in the plaintiff, and it was entitled to no relief prior to its acquirement. The plaintiff relies strongly on the statement of the court in the *Lockett* case, where, 270 U.S. on page 510, 46 S.Ct. on page 401, 70 L.Ed. 703, it said: "The result of [\*\*7] these cases is that a federal district court is held to have jurisdiction of a suit by a patentee for an injunction against infringement and for profits and damages, even though in anticipation of a defense of a license or authority to use the patent, the complainant includes in his bill averments intended to defeat such a defense." It argues that the allegations in the bill with reference to the employment by it of the defendant Bruecker, and its acquirement thereby of the equitable title to the patent, were made in anticipation of the defense that the plaintiff was without title. This argument is not tenable for the reason that such an allegation was of an affirmative rather than a negative character, and necessarily so. Otherwise, the bill would not have disclosed any right or title in the patent by the plaintiff.

The case of *Littlefield v. Perry*, 21 Wall. 205, 88 U.S. 205, 22 L.Ed. 577, relied upon by the plaintiff is distinguished by the court in *Lockett v. Delpark*, *supra*. Another case called to our attention is that of *Magnetic Mfg. Co. v. Dings Magnetic Separator Co.*, 7 Cir., 16 F.2d 739, decided by this court. True, the facts there, insofar as they concern jurisdiction, [\*\*8] are almost identical with those here. The jurisdictional question, however, was neither raised nor considered and under such circumstances, it can not be considered as an authoritative precedent. As argued, the court could have, of its own volition, considered the question, but it did not do so.

While the question of jurisdiction was not raised below, there is no doubt of our duty to consider and determine it here. *Bors v. Preston*, 111 U.S. 252, 4 S.Ct. 407, 28 L.Ed. 419; *Mansfield C. & L.M. Railway Co. v. Swan*, 111 U.S. 379, 4 S.Ct. 510, 28 L.Ed. 462; *Chicago*,

*B. & Q.R. Co. v. Willard*, 220 U.S. 413; 31 S.Ct. 460, 55 L.Ed. 521.

We therefore conclude that the bill of complaint was properly dismissed, notwithstanding the reason stated was other than want of jurisdiction.

It does not follow that the court was without jurisdiction to determine the issues raised by the counterclaim and the answer thereto. The defendants, as legal owner and licensee, in their counterclaim, charged the plaintiff with infringement, and prayed for an accounting and an injunction. Thus, a cause of action for affirmative relief was stated. Under such circumstances, the dismissal of the bill of complaint [\*\*9] did not preclude a trial and determination of the issues presented by the counterclaim and answer thereto. *Jackson v. Simmons*, 7 Cir., 98 F. 768; *Buffalo Specialty Co. v. Vancleef, D.C.*, 217 F. 91; *Vidal v. South American Securities Co.*, 2 Cir., 276 F. 855.

Plaintiff by its pleadings, admits the validity of the patent. The sole defense to defendants' counterclaim was predicated upon plaintiff's rights, alleged to have been acquired by reason of Bruecker's employment during the period of the development and perfection of the invention. It was conceded by plaintiff's counsel during the trial that the razor which it was prepared to manufacture and market constituted an infringement, provided no right was acquired by reason of Bruecker's employment. Thus, we think the issue before us is confined to what, if any, rights in the patent were acquired by the plaintiff by reason of such employment. Among the cases relied upon by the plaintiff as supporting its contention in this respect, are *Standard Parks Co. v. Peck*, 264 U.S. 52, 44 S.Ct. 239, 68 L.Ed. 560, 32 A.L.R. 1033, and *Magnetic Mfg. Co. v. Dings Magnetic Separator Co.*, 7 Cir., 16 F.2d 739. The effect of these cases and others [\*\*10] is that an employer who hires or engages one for a consideration or pay, to devote his time to developing a device, becomes, without qualification, the owner of that property [\*\*934] or device which is developed, and of any invention incident to the making or development of said device.

The law as thus announced is not in dispute. The question is whether the facts are such as to entitle the plaintiff to an application of the law. The situation presented, therefore, is factual rather than legal. That Bruecker was in the employment of plaintiff on various occasions between October, 1934, and May, 1936, is not in dispute. The purpose of his employment, the date of its termination, as well as the circumstances concerning the same, and whether plaintiff, by its course of conduct with Bruecker over a period of years, and by statements made to him at the time of his alleged

discharge, concerning the razor upon which the patent was issued, were all matters on which there was a sharp conflict in the testimony. We do not think it would serve any useful purpose to indulge in a recitation of the evidence concerning these matters. The court below, who saw and heard the witnesses, determined [\*\*11] the factual issues contrary to plaintiff's contention. A study of the record is convincing that the court committed no error in this respect. From the facts as thus determined, it follows as a matter of law that the plaintiff acquired no title to the patent, either legal or equitable, nor did it acquire any shop right which would protect it from the charge of infringement.

Plaintiff also complains of a provision in the decree which requires it to deliver to the United States Marshal for destruction, all infringing electric shavers and parts, thereof in its possession, together with all dies and tools specifically adapted for use in the manufacture of such infringing electric shavers. It is argued by the plaintiff that such a provision is not authorized by law, while the defendants contend to the contrary. Defendants rely upon *Birdsell v. Shaliol*, 112 U.S. 485, 5 S.Ct. 244, 28 L.Ed. 768; *American Caramel Co. v. Thomas Mills & Bro.*, 3 Cir., 162 F. 147, and *American Bell Telephone Co. v. Kitsell, C.C.*, 35 F. 521, as supporting their contention. Plaintiff, in support of its position, cites Walker on Patents, Deller's Ed., pages 1920 and 1921, wherein the cases relied upon by the [\*\*12] defendants are referred to. The statement is as follows: "Judicial destruction of infringing articles, is a feature of the patent laws of England, but is not justified by any existing law of the United States; though that severe measure has been approved in two obiter dicta (*Birdsell v. Shaliol*, 112 U.S. 485, 487 [5 S.Ct. 244], 28 L.Ed. 768 (1884); *Underwood Typewriter Co. v. Elliott-Fisher Co.*, 156 F. 588, C.C., N.Y. (1907)); \* \* \* and invoked in two adjudicated cases where the existence of such a power in the court was implied but its application denied in the cases at bar as not calling for its exercise. (*American Bell Telephone Co. v. Kitsell*, 35 F. 521, C.C., N.Y. (1888); *American Caramel Co. v. Thomas Mills & Bro.*, 162 F. 147, C.C.A. 3 (1907))."

Notwithstanding this statement of the author, it is our conclusion that the court is vested with such authority by reason of its inherent power to enforce its judgments and decrees. That it is a drastic remedy can not be doubted, and that it should be resorted to only in extreme situations, is equally apparent. In the instant case, such relief was not requested in defendants' counterclaim. We can not hold, as argued by the defendants, [\*\*13] that there was shown an utter lack of good faith on the part of the plaintiff. True, the plaintiff prepared to manufacture the razor covered by the patent, which it had a right



to do contingent upon its ability to prove an equitable ownership in the invention. The fact that it failed in this respect does not disclose a lack of good faith. Counsel for the plaintiff, during the trial, frankly conceded infringement unless the claim to equitable ownership was sustained. The decree permanently enjoined plaintiff from making, using, advertising or selling the patent structure. Under the circumstances, it would seem that this provision affords the defendants ample protection. There is no reason to believe that plaintiff will not abide

by the decree in this respect. If it fails to do so, an adequate remedy will be available.

It is therefore our conclusion that while the court was not lacking in authority to enter that portion of the decree under discussion, that it should not have done so under the circumstances presented.

The decree is therefore affirmed in all respects except as to that portion last above referred to, and as to that, it is reversed.



LEXSEE 191 USPQ 450

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UNITED STATES PATENTS QUARTERLY

Prince Manufacturing, Inc. v. Automatic Partner, Inc., et al.

No. C-2496-74

New Jersey Superior Court, Chancery Division

191 U.S.P.Q. (BNA) 450

Decided July 6, 1976

**CASE HISTORY and DISPOSITION:** Action by Prince Manufacturing, Inc. against Automatic Partner, Inc., Joseph H. Church, John Nielsen, Greenbrook Development Company, Inc., Joseph A. Daley, Hassel J. Savard, Jr., Albert L. Lang, and Harry A. Guiditta for misappropriation of intellectual property. Judgment for plaintiff in part.

**HEADNOTES:**  
**UNFAIR COMPETITION**

[\*\*1H] 1. Trade secrets—In general (68.901)

"Trade secret" may consist of formula, process, device or compilation that one uses in his business and that gives him opportunity to obtain advantage over competitors who do not know or use it; novelty and invention are not essential elements and fact that every ingredient is known to industry is not controlling, for secret may consist of method of combining them that produces superior product to that of competitors; although idea to be protected as trade secret must be concrete to extent, it need not be tangible and in material form to entitle it to protection of equity court; principal value is to be found in inventive idea when it becomes clearly defined, and it is unreasonable to protect inventor against claim of breach of confidence by his employer only when employer can immediately exhibit material thing demonstrating invention; fact that those who conceived and disclosed invention to trade secret owner were individuals subsequently guilty of misappropriation to their own use in no way alters trade secret owner's rights thereto once rights were established by existence of contractual or fiduciary relationship.

[\*\*2H] 2. Trade secrets—In general (68.901)

It is not necessary in order for there to be trade secret in

existence that it be reduced to commercially marketable machine.

**PATENTS**

[\*\*3H] 3. Patentability—In general (51.01)

**UNFAIR COMPETITION**

Defenses (68.40)

Prior art is much less effective defense in trade secret case than in patent infringement case; novelty and invention are not essential for trade secret as they are for patentability; fact that general principle was known for many years is no defense to claim of misappropriation of trade secret, where subject of alleged trade secret was use and value of principle in manner not before known.

**UNFAIR COMPETITION**

[\*\*4H] 4. Trade secrets—In general (68.901)

Trade secrets—Disclosure by employees (68.905)

Law recognizes property right in trade secrets and equity will protect right against invasion by one who appropriates trade secrets to his own use in violation of contractual obligation or confidential relationship; employee, upon terminating his employment, may carry away and use general skill or knowledge acquired during course of employment, but one who by reason of confidential relationship with owner has gained knowledge of his trade secret will be restrained by court of equity from betraying trust imposed in him by using secret for his own gain; confidential relation within this rule is one that gives rise to duty not to use or divulge secret to detriment of owner; so long as trade

secret remains secret, it is valuable property right to owner who is entitled to use it for commercial purposes; misappropriation of trade secret constitutes cognizable claim in equity for appropriate relief.

**[\*\*5H] 5. Trade secrets—In general (68.901)**

User of another's trade secret is liable even if he uses it with modifications or improvements upon it effected by his own efforts, as long as substance of process used is derived from other's secret.

**[\*\*6H] 6. Trade secrets—Confidential disclosure (68.903)**

Corporate stockholders and directors, one of whom was also corporate treasurer, and both of whom were members of technical committee, performed extensive services in that capacity, acted as consultants for corporation, and were paid for services, had fiduciary duty to corporation not to disclose trade secret.

**PATENTS**

**[\*\*7H] 7. Title—Employer and employee—In general (66.301)**

**Trade secrets—Disclosure by employees (68.905)**

Where a person expressly or impliedly contracts to devote his mental faculties and exercise his inventive ability for benefit of his employer, inventions conceived by him in course of his employment and as consequence of its pursuit belong in equity to employer.

**CLASS-NO:** 51.01, 66.301, 68.40, 68.901, 68.903, 68.905

**COUNSEL:** Smith, Stratton, Wise & Heher, Princeton, N.J., for plaintiff.

Ira D. Dorian, Cranford, N.J., Meth, Wood, Neff & Cooper, Newark, N.J., John Nielsen, Hempstead, N.Y., H. Hume Mathews, and Mathews & Mathews, both of Morristown, N.J., Snevily, Ely, Swain, Westfield, N.J., J. H. Church, New York, N.Y., and George Rossi, Weehawken, N.J., for defendants.

**OPINIONBY:** Lenox, Judge (orally).

**OPINION:**

The presentation of this case to the court commenced on June 1st and concluded on June 23rd after 13 trial days. Although the trial was somewhat lengthy, the court heard the testimony of only six witnesses, including the

testimony of one introduced through the reading of an oral deposition. However, because of the technical and complex nature of the case the testimony of the witnesses consumed an extraordinary amount of time.

Plaintiff produced the testimony of four witnesses, the first being Howard Head, a resident of Baltimore, Maryland, and Chairman of the Board of Directors of plaintiff, Prince Manufacturing, Inc. Gerard F. Sweeton was plaintiff's second witness, who is a director, vice president, secretary and chief engineer of the plaintiff corporation, and who has since 1971 been employed by and since 1970 associated with plaintiff. The testimonial evidence of plaintiff was concluded with the questioning of defendant, John Nielsen, and the reading of the oral deposition of defendant, Harry A. Giuditta. Defendants produced the testimony of Andrew Stern, a tennis professional and one of the organizers of defendant, Automatic Partner, Inc. They also called defendant, Joseph H. Church and recalled defendant John Nielsen.

Many physical and documentary items were also offered and admitted into evidence, 37 on behalf of plaintiff, 5 on behalf of defendant Church, 3 on behalf of defendant Nielsen and 2 on behalf of defendant Automatic Partner, Inc., for a total of 47 exhibits in evidence.

This somewhat complex case also had a rather complicated procedural history prior to trial, having been the subject of the dismissal of defendants, the addition of new defendants, the entry of defaults against defendants who subsequently appeared pro se, the vacation of dismissal orders previously entered and the necessity for two pretrial conferences to be conducted. A total of nine defendants were named in the Complaint and Amended Complaint and the present status of these defendants is as follows. Defendant Greenbrook Development Inc., which is now under the jurisdiction of the New Jersey Superior Court in a receivership action in another county, was the subject of a voluntary dismissal order entered in this case in open court. Defendants Joseph A. Daley, Hassel J. Savard, Jr., and Albert L. Lang were originally all represented by counsel who subsequently withdrew. However, their Answers have now been stricken and they did not appear for the trial of this case. No default has ever been taken against them and accordingly, the court cannot entertain an application for the entry of judgment.

Defendants Lob-ster, Inc., and Harry A. Giuditta were represented at trial by counsel and upon motion presented to the court at the conclusion of the presentation of plaintiff's evidence an order granting to them an involuntary dismissal of all claims was entered pursuant to Rule 4:37-2(b) "on the ground that upon the facts

and upon the law the plaintiff (had) shown no right to relief". A detailed oral opinion was rendered by the court in ruling upon that motion and the contents thereof are incorporated herein by reference. There remains then for determination at this time plaintiff's complaint [\*452] against defendants Automatic Partner, Inc., a New York corporation, Joseph H. Church and John Nielsen. Church and Nielsen appeared pro se for the presentation of their defense and defendant Automatic Partner, Inc. was represented by counsel.

Plaintiff's claim against these three defendants is described in the pretrial order as "a claim based upon wrongful appropriation of plaintiff's intellectual property by defendants Nielsen, Church and Automatic Partner, Inc., in that while Nielsen was a director of the corporate plaintiff and Church was a director of and consultant for the corporate plaintiff they invented an automatic tennis machine with unique design features which by express agreement, implied agreement and common law became the property of plaintiff and gave rise to a duty by said defendants to convey all of their interests therein to plaintiff, and in that they violated their duty and refused to convey their interest in the invention to plaintiff, but instead fraudulently concealed the existence thereof, applied for and obtained a patent on the same, refused to convey their interest to plaintiff and wrongfully caused defendant Automatic Partner, Inc. to be incorporated for the purpose of manufacturing and selling a machine incorporating the design features aforesaid in competition with plaintiff \* \* \*".

On the basis of the aforesaid allegations plaintiff seeks judgment against the defendants Automatic Partner, Inc., Church and Nielsen for the following relief as set forth in paragraph 1 of the pretrial order:

"A. Enjoining defendants from the manufacture or sale of a tennis machine incorporating any invention, product, process or procedure constituting plaintiff's intellectual right as aforesaid."

"B. Directing the corporate defendant to account to plaintiff for such profits as it has made on the sale of its tennis machine until the date of the injunction aforesaid."

"C. Directing all defendants to transfer to plaintiff or cause to be transferred to plaintiff all rights in its patents or other applications therefore, which they have in any invention, product, process or procedure wrongfully appropriate from plaintiff."

"D. For compensatory damages."

As stated in paragraph 5 of the pretrial order "On its claims for compensatory damages plaintiff seeks damages for loss of sales and profits resulting from the manufacture and sale of a small tennis machine in competition with that which plaintiff manufactures and sells and which plaintiff alleges contains certain design features which are plaintiff's intellectual property which was wrongfully appropriated."

At the conclusion of the trial the court discussed with plaintiff's counsel this question of remedy and as a result of that colloquy plaintiff's counsel agreed to abandon claims B and D above for an accounting and compensatory damages. He further agreed to present his claims lettered A and C in the alternative. Thus, plaintiff agrees that if the court finds favorably to plaintiff on claim C and grants judgment for transfer by defendants to plaintiff of their rights in patents and patent applications containing plaintiff's wrongfully appropriated intellectual property, plaintiff will abandon its claim for injunctive relief. However, in the event that the court denies plaintiff's claim for transfer or assignment of patent rights, plaintiff seeks a prohibitory injunction against the manufacture or sale by defendants of a tennis machine incorporating as a design feature any wrongfully appropriated intellectual property of plaintiff.

In plaintiff's claim is included a claim of right to the venturi-shaped air entraining rubber detent, allegedly misappropriated by defendants. While a system of this type was contained in the "Lob-ster machine" Exhibit P-8 and the "Automatic Partner prototype machine" Exhibit P-14 it was not included in the Church-Nielsen patent Exhibit P-6. Accordingly, a judgment directing an assignment to plaintiff of the Exhibit P-6 Church-Nielsen patent by the assignee thereof, defendant Automatic Partner Inc., would provide to plaintiff no right to the venturi-shaped detent system. Therefore, plaintiff's stipulation to claim in the alternative the relief sought in A and C aforementioned is necessarily conditioned upon the understanding that if the court finds plaintiff to have a property right in the venturi-shaped detent, it will provide relief with respect thereto under either A or C above. This subject need not be considered further since, as will be hereinafter stated, I find no misappropriation by defendants of the venturi-shaped detent.

As set forth in paragraph 4 of the pretrial order, defendants' position in response to plaintiff's complaint is "that on or about April 28, 1972 Nielsen became a director of plaintiff and served in that capacity until September 8, 1972, and on or about August 17, 1970 Church became a director of plaintiff and served in that capacity until September 22, 1972, and both of them during those

periods were also acting as con [\*453] sultants and members of the technical committee for and of plaintiff. During the periods of time in which they were so employed and engaged they specifically deny that they, or either of them, either individually or jointly, in any way conceived, invented, or worked upon the automatic tennis machine or the design features thereof which were subsequently the subject of the patent application filed by them in December, 1972 and issued to them on September 16, 1975. They assert that at a time subsequent to September 22, 1972 they did, entirely independent of plaintiff, conceive, work upon and invent an automatic tennis machine the rights to which were later patented as aforesaid. While engaged as directors and consultants of plaintiff defendants Nielsen and Church admit that they acted as consultants to plaintiff in technical matters but deny that they were requested to or did serve in any way as consultants in connection with any research and development on any new type of tennis machine, and assert that as consultants on technical matters they acted only on matters having as their direct objective the improvement of and removal of operational defects from the specific tennis machine then being manufactured by plaintiff, which was wholly unrelated to the design features of the machine subsequently conceived and patented. Defendants further deny that while acting on plaintiff's behalf they received any confidential technical information, know how or trade secrets belonging to plaintiff, all such matters not in the public domain being previously known to the defendants as the original providers of the basic technology upon which plaintiff was founded."

While defendant Nielsen admits a contractual obligation to convey to plaintiff the results of his work on behalf of plaintiff, defendant Church further asserts that there was no express or implied obligation on his part to assign to plaintiff the rights to any invention conceived by him during his relationship with plaintiff.

Defendant Automatic Partner, Inc. adopts the factual contentions of Church and Nielsen, but as stated in the pretrial order "further asserts that while the judgment sought may be rendered against it if judgment is entered against both Church and Nielsen, such judgment may not be rendered if judgment is entered against Nielsen on the basis of the agreement signed by him but not entered against Church because of the absence of such agreement. Defendant Automatic Partner, Inc. contends that in this event the assignment of the patent application rights to it by Church and Nielsen would be valid as to Nielsen's undivided one-half interest therein and that therefore Church having committed no wrong retained unto himself all of his rights in the invention and patent

including his right to assign his interests, convey the same, license others to act under his patent rights or otherwise deal with third parties independently of the plaintiff." In response to this plaintiff contends that even if the alleged wrongful appropriation resulted from the acts of only Nielsen, Automatic Partner, Inc. by the unrecorded assignment given to it by Church and Nielsen received all of the rights from Church and Nielsen in the patent application then pending and the patent thereafter issued, and that Automatic Partner, Inc. having obtained these rights with full knowledge of the wrongful appropriation from plaintiff by either or both of said individual defendants is obligated to assign or reconvey said rights to plaintiff.

This defense by Automatic Partner, Inc. need occupy no further consideration since as hereinafter stated such wrongful acts which I find were committed are attributable to both Church and Nielsen, and this finding will render moot this issue raised by Automatic Partner, Inc.

Paragraph 7 of the pretrial order recites eight issues to be determined at trial, lettered 7A through 7H inclusive. However, issues 7E through 7H inclusive are not substantive factual issues but are related to plaintiff's claim for injunctive relief, accounting and compensatory damages. The remaining four substantive issues relate to the existence of plaintiff's cause of action, and are as follows:

7A "Whether there was a wrongful appropriation of plaintiff's intellectual property with respect to the design features of an automatic tennis machine."

7B "Whether there was any express or implied agreement by Nielsen and Church with plaintiff resulting from their employment status as officers and directors, status as consultants, as technical committee members or otherwise on the basis of which plaintiff became entitled to the rights which it alleges were wrongfully appropriated by Nielsen and Church."

7C "Whether there was any breach of trust or fiduciary duty by Nielsen and Church resulting in the wrongful appropriation by them of intellectual property of plaintiff which plaintiff obtained by reason of the existing relationship between the parties of employment or otherwise."

Since I find affirmatively on all three of these issues, although perhaps not to the extent alleged and argued by plaintiff, there is [\*454] no necessity for me to consider issue 7D which arises only in the event of a finding by

me that defendants are not liable on the theory of breach of trust or breach of fiduciary duty. However, since I also find affirmatively on issue 7D, I shall recite it for the record, as follows:

7D "Whether the agreement signed by Church set forth in paragraph 2G of the pretrial order required Church to execute the agreement tendered to him identical to that signed by Nielsen which Church refused to sign, that Church's refusal constituted a breach of that contract, and that his wrongful refusal to sign the agreement gives him no rights but rather that plaintiff has against Church the same rights plaintiff would have had Church signed as he was obligated to do."

During the course of the trial occasional references were made to the defenses of laches and estoppel. I find no necessity to rule upon these alleged affirmative defenses since they were not pleaded by defendants Church, Nielsen and Automatic Partner, Inc. They were pleaded by defendants Lob-ster Inc. and Giuditta and were set forth as issues 7J and 7K in the pretrial order entered on March 29, 1976. However, defendants Church, Nielsen and Automatic Partner, Inc. did not participate in that pretrial conference, they having then been in default. On May 25, 1976, following the vacation of their default, a supplemental pretrial order was entered at which time much of the prior pretrial order was incorporated by reference into the supplemental pretrial order. However, the issues of laches and estoppel were not asserted by these defendants in their answering pleadings nor were they incorporated as defenses in their factual and legal contentions in paragraph 4 of the pretrial order. Likewise, they were not asserted as issues in paragraph 7 thereof. Paragraph 8 of the pretrial order specifically provided that "such issues, if any, as are raised by the pleadings and not set forth in paragraph 7 above are abandoned." Accordingly, the issues of laches and estoppel were litigated only by defendants Lob-ster Inc. and Giuditta who were dismissed on motion at the end of plaintiff's case. Although I need not rule upon these issues I shall state parenthetically that even had the issues been raised I would find factually no foundation for denying plaintiff's cause of action on those grounds.

On the basis of the extensive factual stipulations set forth in paragraph 2 of the pretrial order, the testimonial evidence, and the many physical and documentary items admitted into evidence, I find the following facts to have been established by the preponderance of the believable evidence.

It might be said that this case had its genesis in 1968 or 1969 when Gerard Sweeton met Joseph Church at a

meeting with R. H. McClure, since they are the three parties to the original partnership agreement Exhibit P-1. At that time they discussed the development and marketing of a compressed-air tennis machine, which was a concept not yet developed or marketed. Sweeton was shown plans of a tennis machine which Church had designed. A prototype was constructed by Sweeton in the Spring of 1969 similar to a type developed previously by his brother. The machine was not functionally effective and Sweeton and his brother redesigned a low-pressure machine and constructed another prototype. On the basis of this the three men formed a partnership to develop this prototype and enter the manufacturing business. This partnership agreement was in part oral and in part reduced to writing in Exhibit P-1. Under this agreement McClure and Church each obtained a one-third interest, and Sweeton Industries consisting of Sweeton and his brother obtained the other one-third interest. The partnership agreement specifically provided that the partners intended to "organize a company to further the financing and manufacture and sale of such devices when and if they prove successful and have commercial value". And it further provided that all developments by each party toward this end which had presently matured "will become a part of the assets of the partnership", and with reference to Church provided that this included "prior work done by J. H. Church." In furtherance of the provision in the partnership agreement regarding the formation of a company, plaintiff, Prince Manufacturing, Inc., was incorporated in August of 1970 for the stated purpose of manufacturing tennis machines which discharge tennis balls by means of compressed air. To this corporation was contributed the assets of the partnership, the partners became the owners of one-third each of the stock of the corporation, and McClure became president, Sweeton vice president and Church treasurer. Plaintiff was then to become the only company manufacturing a compressed air tennis machine.

In 1971 Nielsen entered the corporation. He was a plastics expert and was obtained by plaintiff to assist in the design of parts for the machine and to act as a consultant and director. At a meeting of the Board of Directors on April 21, 1972, evidenced by the minutes thereof Exhibit P-2, Nielsen was issued 5,000 shares of capital stock of plain [\*455] tiff as compensation for past services and given an option to purchase an additional 5,000 shares at \$1.00 per share within one year from the date thereof. A further resolution provided that he was to be paid \$100 weekly for his services including consultation.

The plaintiff corporation has since shortly after its inception manufactured and retailed a compressed air

tennis machine known as "The Prince" and referred to in this case as "Big Prince". The current production model is in evidence as Exhibit P-13. It retails for \$595 F.O.B. Princeton, weighs 80 lbs. and has no induced air flow in its design features. It differs from the machine described in the patent Exhibit P-6, which is part of the subject of this litigation, essentially in its size, weight, cost and the inclusion in the patent machine of an air induction system.

The "Big Prince" machine was the subject of a patent application by Sweeton and his brother, dated April 13, 1973, and the patent itself, Exhibit DN-2 did not actually issue until December 24, 1974. This patent does not include an air induction system nor could it be classified as a small tennis machine. The detent utilized in the patented machine is a spring-operated one rather than a rubber detent.

On or about April 28, 1972, defendant Nielsen became a director of plaintiff and served in that capacity until September 8, 1972, and on or about August 17, 1970, defendant Church became a director of plaintiff and served in that capacity until September 22, 1972. Both Nielsen and Church were also consultants to the plaintiff corporation and members of its technical committee. While in the employ of plaintiff Nielsen and Church both worked in the field of tennis machine research and development.

Both Church and Nielsen, by reason of their executive and employment capacities with plaintiff owed to plaintiff corporation a fiduciary obligation. As paid consultants on technical matters and members of the technical committee they were charged with the responsibility for tennis machine research and development.

In addition, by express contract found in a provision in the partnership agreement Exhibit P-1, the benefits of which became assets of the corporation when the same was founded pursuant to the agreement, Church conveyed to the partnership, and thus to the corporation his prior work in developing tennis machines.

The central document in this case is Exhibit P-5, a memorandum of May 10, 1972 from defendant Church to the Board of Directors of Plaintiff. The memorandum attached to the letter of transmittal is entitled "Notes on airflow pneumatic ball machines" and discusses at length with diagrams and text a number of technical subjects, principally the use of air induction and a venturi-shaped detent. In his letter of transmittal Church recognized that Prince had "under consideration the expenditure of substantial Corporate funds" on a research and development

program relating to air flow problems existing in the "Big Prince" machine and presented his memorandum on the subject of the solution of such problems by the corporation. In other words, the memorandum itself is not directed to the development of a new machine, or a small machine, but to solving of problems in the then existing machine being manufactured by plaintiff.

During the employment of defendants Church and Nielsen by plaintiff they conceived the design features of a small backyard tennis machine incorporating an air induction system and a rubber venturi-shaped detent, to be manufactured inexpensively and profitably in part by the use of a mass-produced six gallon can as an air chamber rather than the theretofore utilized expensive hand-fabricated chamber. This conception was definitive, was disclosed to plaintiff, was a trade secret, and became the property of plaintiff by reason of the aforementioned fiduciary duty and express contracts.

In the summer of 1972, Church and Nielsen, pursuant to arrangements made by Sweeton, traveled to Baltimore, Maryland for a conference with Howard Head, then and now Chairman of the Board of Directors of the corporate plaintiff. There then existed considerable animosity between Church and Nielsen on the one hand and McClure on the other, and because of this antagonism Church and Nielsen preferred to conduct their business without McClure and his alleged interference. They were enthusiastic about the idea of a profitable production and marketing of a small tennis machine and wanted to ascertain whether Head would provide support therefor, financial or otherwise. They suggested to Head the formation of a separate corporation without McClure, with the corporate plaintiff to be a minor shareholder only and the other shares to be held by Head, Church and Nielsen. Head was not particularly enthusiastic because he was satisfied with the existing "Big Prince" machine being marketed by plaintiff, and felt that the time had not yet come to market a small tennis machine. However, he also recognized that in view of the existing fiduciary duties which [\*456] they all owed to the corporation, the matter should be placed in writing and considered by the Board of Directors. He so suggested to Church and Nielsen, and they agreed, but they never did so. They were suspicious and fearful of McClure and did not want him to share in the concept of a small tennis machine which, unknown to them at that time, was already under the law a concept constituting a property right of plaintiff. Thus they did not present their proposal to the corporation at the Board of Directors meeting on August 25, 1972. Being unable to eliminate McClure from their plans to market a small tennis machine they then continued to consider how they alone could do so.

The obvious answer was the formation of a new company for this purpose. Whether they terminated their affiliation with plaintiff for the purpose and design of forming a new business or not is immaterial. However, there is strong evidence to indicate that they did so for that reason. At the August 25th corporate meeting Church made a demand for a substantial amount of alleged back wages owed to him, raised a technicality about the validity of the meeting being conducted and otherwise created such dissension between himself and McClure that it became apparent to Howard Head that the corporation would benefit by the termination of their affiliation. Accordingly, he made to Church and Nielsen an offer to purchase their stock in the corporation and eventually such a sale was consummated and the fiduciary duty of Church and Nielsen was prospectively eliminated. They apparently failed to consider the facts upon which plaintiff's claim is now based and felt they were free of any obligation to plaintiff with respect to the development and marketing of a small tennis machine containing an air induction system with or without a rubber detent. There can be no doubt of their intention to do so since Nielsen admits that at that time he then intended to and did immediately proceed to work toward this end.

On or about September 22, 1972, defendants Church and Nielsen sold their shares of stock in plaintiff corporation to Head, and as a part of the contract, Exhibit DC-4, each entered into the following agreement with Head as purchaser:

"As additional consideration herefor, Seller for himself, his heirs, executors and administrators, hereby agrees to execute any and all instruments, papers, documents and forms which may be necessary to implement or complete any transaction entered into while associated with the said Prince Manufacturing Inc., its successors and assigns, which transaction shall include but not be limited to the assignment and transfer of any patents or other rights originally owned by Seller."

Defendant Nielsen, but not defendant Church, also entered into an agreement collateral to the agreement aforesaid stating the following:

"I, John Nielsen hereby agree that any invention, development or idea conceived by me relating to Tennis Ball Throwing Machines during the period of my association and its prior Partnership, are the sole ownership and possessions of Prince Manufacturing Corporation, Inc., and I disclaim any rights or claims to such."

The sale by defendants Church and Nielsen of their shares of stock in plaintiff corporation terminated their

relationship with plaintiff.

Thereafter, in violation of their express contractual and fiduciary duties they proceeded to develop a small tennis machine incorporating certain trade secrets then the exclusive right and property of plaintiff.

The patent application, a portion of which is in evidence as Exhibit P-25, on the basis of which the patent, Exhibit P-6 was issued, was filed by defendants Church and Nielsen as inventors with United States Patent Office on December 7, 1972 and the patent issued to them almost three years later on September 16, 1975. In this application they sought a patent right for a small tennis machine and patent protection for the design features thereof. However, not all of the matters for which patent protection was sought were granted.

This machine incorporated the features of plaintiff's already patented "Big Prince" machine and trade secrets belonging to plaintiff. The rights in the patent application and patent were subsequently assigned by them to defendant Automatic Partner Inc. which is presently the holder of the patent rights.

The patent was issued upon an invention entitled "An induced air device for discharging spherical members." It is noteworthy in this connection that this is not the nature of the patent which was sought by the application. Church and Nielsen applied for a patent upon a machine to discharge spherical members, the emphasis in the application being upon the machine itself. This was revised by the Patent Office, in obvious recognition of the fact that there were already invented numerous machines for the discharge of spherical members. A patent could not issue on this concept. The secret to be patented was the utilization of induced [\*457] air for this purpose and the patent issued upon "an induced air device" not upon a "machine for discharging" tennis balls.

On page 6 of the patent Exhibit P-6, under the heading "What is claimed is:" is claim No. 1, which for the purpose of this trial counsel have for the purpose of discussion and testimony dissected into twelve elements. Whether there are twelve or more or less than twelve is a matter of subjective interpretation. But what does clearly appear is that of the several elements recited therein, the induced air device is the major one and the heart of the patent. It is the novelty, the secret, the mechanism which causes the balls to feed properly, and which improves upon the already existing "Big Prince" tennis machine, previously patented, which machine basically contains in one form or another all of the other elements of the claim.



Defendants Church and Nielsen also proceeded to seek financial and technical assistance for the marketing of the machine for which they had filed their patent application and to that end entered into an agreement with Tech-Con Corporation, Inc., the principals of which were defendants, Lang and Savard.

In November 1972, defendant Automatic Partner, Inc., was incorporated in the State of New York and began business in Merrick, New York. Of approximately 2150 shares of the stock of said corporation which were issued, 700 were issued to Church, 700 to Nielsen, 400 to Tech-Con Development Corporation, Inc., of which defendant Lang was the largest single shareholder. The remaining 350 shares were issued to various investors.

On or about November 1, 1972, defendants Church and Nielsen delivered to Daley, Savard and Lang a prototype of the small tennis machine, and later, after the patent application, Exhibit P-25 was made by Church and Nielsen, they allowed Daley, Savard and Lang to use the information contained on the patent application in order that they could, through a corporation owned by them, Tech-Con Development Corporation, Inc., manufacture and sell the machine.

This was under an agreement between Automatic Partner, Inc., and Tech-Con Development Corporation, Inc., received the aforementioned 400 shares of stock in Automatic Partner, Inc., and Tech-Con Development Corporation, Inc. was to develop a functional machine from the prototype, manufacture 1000 of such machines, and deliver them to Automatic Partner, Inc., which would market them. Under this agreement Tech-Con Development Corporation, Inc. was to receive an additional percentage from sales of the machine.

The delivery to Daley, Savard and Lang of the prototype of the small tennis machine incorporating plaintiff's trade secrets and the information supplied with reference thereto was given in secrecy and confidence with the intention that it be used solely for the benefit of Automatic Partner, Inc.

Thereafter, Tech-Con Development Corporation, Inc. had financial difficulty and all of its assets were sold under execution in a foreclosure action by the Small Business Administration.

About a year later, Greenbrook Development Company, Inc., was incorporated under the laws of New Jersey and commenced business in Scotch Plains, New Jersey. Savard, Lang and Daley, either directly or through

nominal holders were shareholders of that corporation. Savard, Lang, Daley and Greenbrook Development Company, Inc., wrongfully violated their duty of secrecy and confidence and misappropriated to their own use and benefit the trade secrets which were then still the property of plaintiff. Their tortious conduct in this connection gave rise to a cause of action by plaintiff against them as well as against Church, Nielsen and Automatic Partner, Inc.

Go to Headnotes [\*\*1R] [1] As to plaintiff's claims relating to the concept of a small tennis machine and an air induction system, defendants' contention that the alleged intellectual property of plaintiff did not constitute a trade secret is clearly without merit. "A 'trade secret' may consist of a formula, process, device or compilation which one uses in his business and gives him opportunity to obtain advantage over competitors who do not know or use it." *Sundial Corp. v. Rideout*, 16 N.J. 252 (1954). In that case the court observed that in order for the subject matter to constitute a trade secret the secrecy need not be an absolute one. Novelty and invention are not essential elements, and indeed, "the fact that every ingredient is known to the industry is not controlling for the secret may consist of the method of combining them which produces a superior product to that of competitors." Defendants contend that the items which plaintiff alleges to be its intellectual property are mere thoughts or ideas not sufficiently concrete to be the subject of a property right. I disagree. Although the idea to be protected as a trade secret must be concrete to an extent, it need not be tangible and in a material form to entitle it to protection of the equity court. The principal value is to be found in the inventive [\*458] idea when it becomes clearly defined, and it would be unreasonable to protect an inventor against a claim of breach of confidence by his employer only when the employer can immediately exhibit a material thing demonstrating the invention. Defendants argue that plaintiff had no intellectual property right in the subject matter of this action because plaintiff was not utilizing nor did it plan to utilize the intellectual property in its business of manufacturing tennis machines. "Though there is respectable authority to the effect that a plaintiff must be employing a trade secret before he can maintain a suit for its wrongful appropriation and use \* \* \* (I) find nothing to persuade (me) that the courts of New Jersey adopt this view. Their decisions speak of 'discovery' and 'maintaining secrecy' as the only requisites for existence of a trade secret." *Ferroline Corp. v. General Aniline and Film Corp.*, 207 F.2d 912, 99 USPQ 240 (7th Cir.Ct.App. 1953). While the trade secrets in this case are unusual in that they were conceived and disclosed to plaintiff by the very individuals who subsequently were guilty of

misappropriation thereof to their own use, this fact in no way alters plaintiff's rights thereto once those rights were established by the existence of a contractual or fiduciary relationship.

The first concept allegedly misappropriated by defendants Church and Nielsen is that of a small tennis machine. The essence of this concept is the six-gallon prefabricated canister used in manufacture in lieu of the hand-fabricated air chamber found in the "Big Prince" machine. It is defendants' contention that this idea was not reduced to a practical concept until October or November, 1972 after Church and Nielsen left plaintiff's employ. They contend that during their employment it was but an abstract idea not yet conceived to the point of a property right. The value of the concept is that it makes the assembly of the machine faster and less expensive and makes the machine itself smaller and lighter in weight. I find this concept to have been a trade secret of plaintiff misappropriated by defendants. Church admits that he had this idea approximately May 1, 1972 while he was a director and officer of plaintiff. He admits discussing the matter with Sweeton at that time. From the evidence I find that Sweeton discussed the concept of a small tennis machine with both Church and Nielsen on occasions during the period of two or three weeks before Church and Nielsen went to Baltimore in the summer of 1972. Nielsen told Sweeton there was a market for such a machine, that it could be constructed of lightweight materials inexpensively and suggested ways to avoid becoming involved with McClure in developing such a machine. And again on August 16th, two days after the meeting in Baltimore, at an informal corporate meeting with all members of the Board of Directors present the subject was again discussed in general terms. Church and Nielsen at that time agreed to appear at the August 25th Board of Directors meeting with a concrete proposal, but did not do so. And on August 18th Nielsen and Sweeton discussed the concept of a small tennis machine in a parking lot, including reference to the use of a small paint can and a projected retail price of \$150.

All of these discussions were by and between parties owing a fiduciary duty to plaintiff and related to a concept having a valuable property right and to a marketable product not yet developed or being sold by any other company. It was corporate intellectual property not disclosed to the world, was a concept which would be valuable to competitive interests if known to them and in the surrounding circumstances clearly constituted a trade secret. The use to which this information was made by Church and Nielsen and the manner in which they utilized the information immediately after the termination of their employment as herein set forth constitutes a breach

of duty and misappropriation by them of a valuable intellectual property right of plaintiff.

Plaintiff's second claim of misappropriation by defendants relates to the air induction system. Plaintiff stipulated at trial that the concept of an annular air jet for industrial use, primarily as a means by which exhaust gases may be removed from a factory, was known to the world for many years prior to the formation of plaintiff's business. Plaintiff does not assert that the concept of an annular air jet itself was its intellectual property, but rather claims that the concept of the application of an annular air induction system to a tennis machine was a trade secret and property right of plaintiff. Plaintiff contends that this property right came to it through the disclosure by Church to the Board of Directors of the contents of his memorandum Exhibit P-5, a copy of which was received by each member of the Board. This document has been the subject of extensive testimony which need not be reviewed in detail at this time. The air induction system described therein is shown on figures 15A, 15B, 16A and 17B, and in the material written at length on pages 7 through 10 inclusive. By its very language it is much more than a mere air induction system, for it clearly includes the conception of its use in a tennis machine. It contains several [\*459] suggestions for controlling or impounding the air flow through the tennis machine. Admittedly, although Exhibit P-5 in this respect does not describe a tennis machine, but rather a system of air induction to be placed into a tennis machine, clearly what Church and Nielsen did was incorporate this system into a device, that is a tennis machine which they patented. And, in my judgment it is the system not the device which is the heart of the patent which was issued.

Go to Headnotes [\*\*2R] [2] Defendants argue that the air induction system described in Exhibit P-5 was not functional and was not reduced to a commercially feasible system until approximately a year later. This begs the question. It is not necessary in order for there to be a trade secret in existence that it be reduced to a commercially marketable machine. By Exhibit P-5 Church disclosed to plaintiff a system for induced air flow through a tennis machine utilizing an annular air jet which was a concept then unknown to the world. It had commercial value to plaintiff and thereafter plaintiff proceeded to take steps to develop it. Exhibit P-5 cannot be said to be an abstract concept. In words and pictures and at considerable length it describes an inventive process which required only comparatively minor development of a mechanical nature to convert it into a working machine. Indeed, Church and Nielsen developed a prototype machine in but a few weeks without written plans or specifications.

Go to Headnotes [\*\*3R] [3] Church contends that the contents of Exhibit P-5 were prior art, and that he learned of it in Milan, Italy, in 1969. I find this to be somewhat doubtful since he was not then engaged in the tennis machine business, and in view of his testimony that the notes which he made at that time have been lost. However, I need not dwell at length on this for it makes little difference whether he did so or not. If he did so, by his own testimony he merely made notes on the subject of air flow and there was no conception at that time. He then, at most, merely had an idea not capable of legal ownership. The conception of the principle of the incorporation of an air induction system into a tennis machine occurred with the preparation of Exhibit P-5 and not before. It was conceived by him in conjunction with his fiduciary duty of overcoming problems existing in the function of the "Big Prince" machine which he was working on as an employee of plaintiff, and as such became the intellectual property of plaintiff at the time of its conception by reason of his fiduciary duty. However, even if it were conceived by Church prior to the commencement of his employment with plaintiff it became the property of plaintiff by the specific language of the partnership agreement signed by Church, Exhibit P-1. "Prior art" is, in the nature of things, a much less effective defense in a trade secret case than in a patent infringement case. "Novelty and invention are not essential for the trade secret as they are for patentability". *Gallowhur Chemical Corporation v. Schwerdle*, 37 N.J.Super. 385, 108 USPQ 260 (Ch.Div. 1955). The fact that the general principle of air induction in mechanical devices was known for many years is no defense when, as here, its use and value in the operation of a tennis machine in a manner not therefore known is the subject of the alleged trade secret.

After the conception became a property right of plaintiff, Ross Worn was retained by plaintiff as a consultant and he developed a system shown in a diagram Exhibit P-13(b), and in evidence is the actual device, Exhibit P-16. Plaintiff was interested in developing an air induction system, did work on the idea, and actually had an experimental system in operation before Church and Nielsen left plaintiff's employ. This experimental system was incorporated as an annular air induction system into the "Big Prince" machine in July, 1972 prior to the technical committee meeting of August 1, 1972, evidenced by Exhibit P-10. Admittedly, the experiment was only a partial success since it was too noisy and did not provide sufficient power to adequately propel the tennis ball, but it was successful in that it did induce the tennis ball through the machine to the detent which was the purpose of the air induction system. Under these

circumstances the subsequent use of this air induction principle by Church and Nielsen after termination of their employment with plaintiff constituted a misappropriation. The patent Exhibit P-6 which was issued to them, while not describing an annular air jet in claim 1 of the patent, does show the same in the diagrams contained in the patent. While there were modifications of the system shown in Exhibit P-5 by using a means of covering the motor to provide direct air from the motor to make the system work properly, this was no more than a simple mechanical construction and not a separate conception.

Defendants' claim that their patent, Exhibit P-6 was an independent conception resulting from their inventive processes and labors after termination of their employment rather than a misappropriation of plaintiff's intellectual property right is most strongly contradicted by the short period of time which elapsed between the termination [\*460] of their employment and the construction of an operable machine. Nielsen resigned on September 8th and Church two weeks later on September 22nd. Nielsen testified that between the 8th and the 22nd he did very little toward construction of the machine except "to get things in order". Nielsen further admitted that at the time he left plaintiff's employ he intended to construct a small tennis machine and approximately three weeks later a prototype machine constituting a small tennis machine incorporating an air induction system and a venturi-shaped rubber detent was successfully operating. It was constructed without the necessity for any drawings or specifications. It contained all of the features in the patent, Exhibit P-6 except that it had a vertical rather than horizontal axis, which element was added to the prototype in November, 1972. To urge that within this short period of time, without plaintiff's misappropriated intellectual property this valuable invention was conceived and developed to a working machine defies logic and reason.

Go to Headnotes [\*\*4R] [4] Clearly plaintiff is entitled to relief in this case. The law recognizes a property right in trade secrets and the Chancery court will protect the right against invasion by one who appropriates trade secrets to his own use in violation of a contractual obligation or confidential relationship. *Darsyn Laboratories, Inc. v. Lenox Laboratories, Inc.*, 120 Fed.Sup. 42, 101 USPQ 50 (D.C. N.J. 1954) affirmed 217 F2d 648, 104 USPQ 39, certiorari denied 349 U.S. 921, 105 USPQ 517. See also Restatement of the Law, Torts, 757 and 758. "It is a long settled rule of law that an employee, upon terminating his employment, may carry away and use the general skill or knowledge acquired during the course of the employment \* \* \* It is also a generally accepted rule of law that one who by reason of a confidential

relationship with the owner has gained knowledge of his trade secret will be restrained by a court of equity from betraying the trust imposed in him by using the secret for his own gain; and a confidential relation within this rule is one which gives rise to a duty not to use or divulge the secret to the detriment of the owner." *Boost Co. v. Faunce*, 17 N.J.Super. 458 (App.Div.1952). So long as a trade secret remains a secret, it is a valuable property right to the owner thereof who is entitled to use it for commercial purposes, *Underwater Storage Inc. v. United States Rubber Company*, 371 F.2d 950, 151 USPQ 90 (D.C.Ct.App.1966) cert. den. 386 U.S. 911, 152 USPQ 844 (1967), and the misappropriation of such valuable property constitutes a cognizable claim in equity for appropriate relief, *Ferrolite Corp. v. General Aniline and Film Corp.*, *supra*.

It is my finding as stated in this opinion that this machine which was constructed and patented by defendants incorporated a considerable amount of misappropriated intellectual property of plaintiff.

Go to Headnotes [\*\*5R] [5] Defendants argue that the machine although containing the concepts of a small tennis machine incorporating an annular air induction system required further inventive processes on their part before the conception became a reality. However, "the user of another's trade secret is liable even 'if he uses it with modifications or improvements upon it effected by his own efforts,' as long as the substance of the process used by the actor is derived from the other's secret." *Forest Laboratories, Inc. v. Pillsbury Co.*, 452 F.2d 621, 171 USPQ 731 (1971). This principle of law which I accept is of the essence of this case. For without the misappropriated trade secrets defendants had no viable conception of the machine which they subsequently constructed and patented. And yet, with those trade secrets little more than routine mechanical skill was required to reduce them to a functioning machine. Defendants' efforts to seek refuge in the mechanical work which they performed in the few weeks following their termination of their relationship with plaintiff must be unsuccessful. The ideas which they originated, which they conveyed to plaintiff pursuant to their contractual and fiduciary obligations, and which they misappropriated after the same became plaintiff's intellectual property are the heart of the invention subsequently patented. Without them there is nothing to which they can make claim except the routine labor of reducing the completed concept to reality and the adaptation of general construction principles already known to the public and incorporated in "Big Prince" machine to the concept of a small tennis machine.

Go to Headnotes [\*\*6R] [6] As previously indicated, defendants Church and Nielsen attempted at trial to dispute the existence of a fiduciary duty on the ground that they were not employed by plaintiff in a manner giving rise to such a duty. Although the pretrial order in paragraphs 2D, 2E and 2F contain a stipulation to the contrary which I ruled at the conclusion of the trial to be binding upon them, in view of the contrary position taken by them in paragraph 4 of the pretrial order, I shall parenthetically make an additional finding for completion of the record. Even in the absence of such a stipulation, the facts of this case established in the evidence give rise to a fiduciary duty. Nielsen and Church were both stockholders and directors of plaintiff. Church was also the corporate treasurer. They were both members of the technical committee and [\*461] performed extensive services in that capacity. Both also acted as consultants for the corporation. In the testimony of Howard Head he characterized them as key men who were vital parts of the corporation and who were engaged almost exclusively in technical development of tennis machines. A letter signed by Nielsen written to plaintiff in April, 1972, marked Exhibit P-3, describes in detail his agreement with respect to compensation, acknowledges that he has "been working" for plaintiff for the past year, that he would "continue to provide future technical consulting services for which (he would) be compensated at the rate of \$100 per week," that he would attend weekly meetings of the technical committee and provide "technical services" to the corporation. And Exhibit P-4 dated May 8, 1972 and signed by both Church and Nielsen outlines in detail their duties as members of the technical committee, including tennis machine design, testing, and research and development projects. Both Church and Nielsen were paid for their services. Nielsen received \$100 a week as aforesaid plus 5,000 shares of stock and an option to purchase more. Church began receiving \$100 a week in July, 1971 which at the end of 1971 was increased to \$150 per week. Whether this was a salary or a draw is immaterial since if it was draw it exceeded the amount of his expenses and on his federal income tax return he reported the difference as income.

And the final answer to the question of whether Church was employed by plaintiff is his very conduct in claiming at the August 25, 1972 meeting that plaintiff owed him many thousands of dollars in back wages, and, as I understand it although it is not in evidence, his presently pending lawsuit asserts such a claim. Obviously, his assertion of a claim for back wages is totally inconsistent with his claim that he was not so employed by plaintiff.

Defendants contend that they were employed only to correct defects in the machine and not to engage in

research and development. While this contention is directly contrary to the document P-3 which they both signed, even if this were so it would make no difference with respect to the claim of breach of fiduciary duty. For the claims of plaintiff to the air induction system, rubber detent, and small tennis machine concept are all aspects of the improvement of defects and deficiencies in the existing "Big Prince" machine. These are all in the same category as Nielsen's other work which he performed such as development of a nylon detent and construction of a battery-operated "Big Prince" machine. Whether it be called research and development or improving the old machine it is an area included in the fiduciary duty which they owed.

Go to Headnotes [\*7R] [7] Defendants contend that they were under no duty, either contractual or fiduciary, to afford to plaintiff a property right in the results of their inventive work while employed by plaintiff. As stated heretofore, I find from the evidence the existence of an employment relationship, and in view of the nature of that employment I find the existence of a fiduciary duty binding both Church and Nielsen to plaintiff. "Where a person expressly or impliedly contracts to devote his mental faculties and exercise his inventive ability for the benefit of his employer, the inventions conceived by him in the course of his employment and as a consequence of its pursuit belong in equity to the employer." *International Pulverizing Corp. v. Kidwell*, 7 N.J. Super. 345, 347 (Ch.Div. 1950). The presence of this fiduciary duty under the facts of this case is all that is required to impose upon defendant liability for equitable relief. However, plaintiff further argues and I agree that both Church and Nielsen were further bound by a contractual duty to the same effect. Church is bound by his specific assignment of his past and future inventive rights as contained in the partnership agreement, Exhibit P-1. He argues forcefully the fact that he rejected a proposal that he execute a signed document, similar to that signed by Nielsen, which was prepared and presented to him for signature at the time of the sale of his stock to Howard Head. The simple answer to this is that the proposed written agreement stated nothing that he was not already bound to perform and his rejection of it afforded him no additional rights. Nielsen was similarly bound by the written agreement which he did execute upon the termination of his affiliation with plaintiff, the language of which is all inclusive and hereinbefore set forth.

In connection with plaintiff's alternative claim to title to the air induction system based upon the aforementioned language in the partnership agreement, Exhibit P-1, defendants assert that the rights of the partnership in this agreement were never conveyed by the partners, Church,

Sweeton and McClure to the corporate plaintiff upon its organization. I have doubt as to the right of defendants to litigate this question, both because it was not a stated issue in the pretrial order and because of possible lack of standing to do so, since the present holder of the patent Exhibit P-6 was not a party to that transaction between the partnership and the corporation. However, since I find no merit to this defense, I shall rule upon it. [\*462] On the basis of the evidence presented it is my judgment that the partnership agreement, Exhibit P-1 contemplated by its language the formation of the corporation for the conduct of the manufacture and sale of tennis machines and the transfer of all partnership assets to the corporation. The actual act of incorporation was a ministerial one in pursuance of the executed partnership agreement and no independent document of transfer of partnership assets was necessary as it was a transfer by the partners to a corporation of which the partners received the same percentage interest as they had in the partnership. It is the intention of the contracting parties which governs and I find no doubt as to their intention. Sweeton testified that the parties to the partnership agreement orally stated that this was so both at the time of the execution of the partnership agreement, Exhibit P-1 and at the time of the incorporation of the corporate plaintiff. He testified that there were several meetings where each agreed to transfer all partnership assets to the corporation in return for a one-third shareholder interest in the corporation. I find this testimony to be credible. Under the circumstances disclosed in the evidence I find no persuasion in the argument that the minutes of the organizational meeting of the corporation, Exhibit DG-2 show no transfer of partnership assets other than the rights in the pending Sweeton patent. Furthermore, it would seem to make little difference whether, even if conception occurred prior to the execution of the partnership agreement, the property right of the utilization of an air induction system in a tennis machine was transferred to the corporation from the partnership. For even if it were not, I find that Church intended to convey this conception to the corporation by his disclosure thereof to the Board of Directors through the medium of Exhibit P-5, intending that it be utilized by the corporation in its product.

It is plaintiff's contention that Church and Nielsen during the course of their employment with plaintiff developed as an intellectual property right of plaintiff all of the trade secrets contained in a small tennis machine now being produced and marketed by Lob-ster, Inc. one of which is in evidence as Exhibit P-8. This machine is not a working model of the patent Exhibit P-6, although it is unquestionably patterned after it and is almost identical with the exception of certain limited additions and modifications. It contains Nielsen's conception of

a small, inexpensive commercially-marketable tennis machine and the use of a mass-produced cannister in its construction. And it contains Church's conception of an air induction system and the use of a rubber detent. Through a series of events no longer relevant because of the dismissal of this case of defendants Lob-ster Inc. and Giuditta, the Lob-ster machine is the progeny of their inventive work and of their patent and of their subsequent modifications of the venturi-shaped rubber detent. On this basis plaintiff asserts a claim not only to the Church-Nielsen patent, Exhibit P-6, but also to their right in the venturi-shaped rubber detent which is not contained in that patent.

My determinations that Church and Nielsen misappropriated the trade secrets of the air induction system and concept of a small tennis machine are the foundation for my decision that judgment should be entered requiring the assignment to plaintiff of the patent Exhibit P-6. In rendering this aspect of my decision, it is unnecessary for me to make a determination on the issue of whether Church and Nielsen also misappropriated the venturi-shaped rubber detent since that alleged trade secret does not appear in the Exhibit P-6-Church-Nielsen patent. Therefore, that must be considered separately and if plaintiff prevails, the subject of a separate form of relief.

Thus, we come now to the third claim of misappropriation, that relating to a venturi-shaped air entraining rubber detent. The concept of a detent in a tennis machine is not new. It was contained in the "Big Prince" machine. It is the fact that it is venturi-shaped and made of rubber which is the basis of plaintiff's claim. The foundation of the claim is the same as the claim relating to the air induction system claim, that is the Church memorandum, Exhibit P-5 in evidence. Therein at page 5 are two drawings of rubber detents. Figure 10 is of a form previously utilized by plaintiff which may be described as a "half venturi" or conical shaped detent. It is this type of detent which is contained in the patent, Exhibit P-6 and the concept of which was admittedly in the public domain at that time. Figure 11 is a venturi-shaped rubber detent and is the basis of plaintiff's claim of misappropriation. At page 5 of the May 10, 1972 Church memorandum, Exhibit P-5, Church discussed these two forms of detent in the context of problems created by the Figure 10 type of detent, which problems resulted from an increase in back pressure within the machine. He discussed Figure 10 as a "bad" design creating an "area of extreme turbulence" and Figure 11 as a "good" design as reducing "back pressure", but recognized that the Figure 10 design might be required for other reasons.

In response to plaintiff's claim of misappropriation

defendant argues that the pre [\*463] sent venturi-shaped rubber detent did not come into existence until the autumn of 1973, more than a year after the submission to the Board of Directors of Exhibit P-5. And they contend that the origin of the venturi shape and the purpose of the Figure 11 design in Exhibit P-5 was the reduction of back pressure and in no sense was it for the purpose or function for which the present detent is utilized. In this connection, Nielsen testified as follows: "The detent in Figure 11 of the Church memorandum shows a venturi-shaped detent the function of which is to provide a minimum of back pressure and to allow for as close as possible laminar flow of air through the detent. While the detent of DN-1 which is in my engineering notebook and is used in the Lob-ster and Automatic Partner machines in evidence was for the function of holding the ball for a predetermined length of time which could be adjustable in order to allow, first, a greater velocity capability so that you could get a stronger shot with everything else being the same, and second, more reliability so that even at very low pressures the ball ultimately would come out, which was a very important feature as far as a machine operation is concerned, because frequently using the detent of Figure 10 the ball could stay forever in the detent never coming out until it was pulled out by hand. If a slight problem occurred with the machine by the development of leakage or something like that."

The present detent as to which plaintiff seeks an assignment of patent applications or injunctive relief contains even further modifications. The venturi-shaped detent apparently in theory could have behind it either a solid mass of malleable rubber which would compress under pressure permitting the ball to pass through the orifice or a body of trapped air which would perform the same purpose. Either would reduce air turbulence as in Figure 11 of Exhibit P-5, but only the one containing trapped air could be the subject to variable pressure or a "bleed hole" as in the modification conceived by Nielsen in 1973. As contained in the Lob-ster machine, Exhibit P-8, the conception of Nielsen is called an adjustable detent or an air entraining detent because it works on the principle of bleeding out of the trapped air while the ball is lodged in and creating a pressure upon the detent and blocking the opening so that pressurized air is building up behind the ball. Through the medium of the adjustable detent, the air trapped behind the detent escapes in a regulated manner through the "bleed hole" and then when the ball is released air comes back in the "bleed hole". By regulating the speed at which the air leaves the "bleed hole" the timing of the machine is also regulated.

This was conceived by Nielsen in the summer of 1973, many months after the termination of his employment

with plaintiff. He and Church filed a joint application on another patent containing this conception and that patent is pending in the Patent Office. Plaintiff claims that the detent contained in the pending patent application is the intellectual property of plaintiff. I disagree. The concept of the venturi-shaped detent for the purpose of reducing air turbulence and back pressure to the extent that it is useful, became plaintiff's property through the disclosure to the corporation of Exhibit P-5. And I find, as Mr. Sweeton testified, that Church and Nielsen did discuss at a technical committee meeting of plaintiff problems which they were having with the "Big Prince" detent and the benefits which could be obtained by converting to a venturi-shaped detent. Further the possibility of pressurizing the space between the walls and the side of the detent was also discussed. But I find that this concept is entirely different than and unrelated to the concept later conceived by Nielsen. Plaintiff argues that it is a mere modification and that such modification cannot eliminate the pre-existing property right misappropriated. I agree with the legal principle but not with the factual foundation of plaintiff's argument. The new detent is different in both design and purpose from that shown in Figure 11 of Exhibit P-5 and described in the written words on pages 1 and 4 of that Exhibit. Nielsen testified and I find that the Figure 11 detent was never used in any machine and it could not be for without a "bleed hole" it would not work properly and the ball would be trapped in the machine and would not be discharged. Contrary to the situation in the air induction system previously discussed, the modification constituted the invention. The venturi-shaped detent in Figure 11 was designed for assistance for solving a problem existing in "Big Prince" machine which did not have an air induction system. That problem of back pressure and air turbulence was eliminated by the use of the air induction system as in the Tech-Con prototype which utilized an "air box". The

utilization of a venturi-shaped detent in the "Big Prince" machine is a totally different concept than the utilization of the adjustable detent as found in Lob-ster machine. It was actually the creation of a new detent rather than a mere improvement of the old one.

For all of the foregoing reasons stated it is the judgment of the court that defendant [\*464] Automatic Partner, Inc. as assignee and present holder of the patent rights assign to plaintiff all of its rights in the Church-Nielsen patent, Exhibit P-6. This is to be accomplished within thirty days of the execution by the court of the written judgment to be submitted by plaintiff's attorney, and defendants Church and Nielsen are directed to cooperate in all respects to effect this assignment.

Plaintiff's claim for assignment of patent applications and all rights with respect to the venturi-shaped air entraining rubber detent is dismissed with prejudice on the basis of the court's finding that this conception was not a trade secret of plaintiff which was misappropriated by defendants. With respect to any further patents or applications which may be held by defendants incorporating an air-induction system or the concept of a small tennis machine as to which plaintiff claims any rights, those rights must be pursued by a claim of patent infringement after the patent Exhibit P-6 is assigned.

Plaintiff's attorney will prepare and submit to the court on five-days notice to defendants a form of judgment consistent with this opinion.

Since this court is being moved from the State House Annex on or shortly after July 9, 1976, the court will not be responsible for exhibits which are not retrieved by counsel prior to that time.



LEXSEE 210 USPQ 742

Keller et al. v. Clark Equipment Company et al.

Nos. 4839 and 4875

United States District Court for the District of North Dakota, South Eastern Division

1981 U.S. Dist. LEXIS 14893; 210 U.S.P.Q. (BNA) 742

March 30, 1981

## LexisNexis(R) Headnotes

## COUNSEL: [\*1]

Malcolm L. Moore, Herman H. Bains, and Williamson, Bains, Moore & Hansen, all of Minneapolis, Minn., and Alan Foss, and Van Osdel, Foss & Miller, both of Fargo, N.D., for Louis J. Keller and Cyril N. Keller.

John D. Kelly, and Vogel, Brantner, Kelly, Knutson, Weir & Bye, both of Fargo, N.D., Thomas D. Allen, Fred E. Schulz, Wildman, Harrold, Allen & Dixon, James P. Ryther, and McDougall, Hersch & Scott, all of Chicago, Ill., and Harry G. Thibault, Buchanan, Mich., for Clark Equipment Company.

## OPINIONBY:

BENSON

## OPINION:

Benson, Chief Judge.

## Procedural History

The above entitled consolidated actions arise out of a patent license agreement whereunder Louis and Cyril Keller, residents of North Dakota, granted exclusive licenses on three interrelated patents to Clark Equipment Company, a corporation incorporated under the laws of Delaware and with its principal place of business in Michigan. Also at issue was a similar agreement between the Kellers and Clark Equipment, A.G., a Swiss corporation which is a wholly owned subsidiary of Clark. Involved were United States Patents 3,151,503 (hereinafter 503 patent), 3,231,117 (hereinafter 117 patent), and Design Patent 195,254 (hereinafter [\*2] 254 patent).

The licensed patents relate to a self-propelled four

wheel drive skid steer loader manufactured by Clark and others. Clark manufactures the loader at its Melroe Division, formerly the Melroe Manufacturing Company, Gwinner, North Dakota, and sells it under the trade name "Bobcat."

Civil Action 4875 is a declaratory judgment action between Clark, plaintiff, and the Kellers, defendants. The action was originally filed in the United States District Court for the Western District of Michigan on October 10, 1972, seeking in part, an adjudication as to the validity and non-infringement of the licensed patents. Upon the Kellers' motion, the action was transferred to the United States District Court for the District of North Dakota on August 27, 1973.

On September 19, 1973, the Kellers filed their answer and counterclaim. Their counterclaim in part is for royalties allegedly due under their license agreement with Clark and for their share of royalties due from Owatanna Manufacturing Company, Inc., and J.I. Case Company, nonexclusive sublicensees under the agreement.

The counterclaim further alleges that Clark, as successor to the Melroe Company, had been negligent [\*3] in failing to file the patent application on the 117 patent within the one year period after the invention had been in public use or on sale. 35 U.S.C. § 102(b). In an amended pleading filed on January 31, 1979, the Kellers alleged additionally that Clark, as successor to the Melroe Company, had breached a contract with the Kellers to timely file the 117 patent application.

In response to the negligence claim, Clark filed a third-party complaint against the law firm of Williamson, Bains & Moore as third party defendant, alleging that if there was negligence in filing the application for the 117 patent, the third party defendants, or predecessor partnerships or partners, who were representing the joint inventors, Louis J. Keller and Clifford E. Melroe, had a professional obligation to investigate the facts and see



that the application was filed on time. It is alleged that should the 117 patent be found invalid under 35 U.S.C. § 102(b), the third party defendants would be liable to Clark as successor of the Melroe interest.

On April 29, 1974, the court bifurcated the portion of the counterclaim directed at Clark for late filing of the 117 patent, and the third party action. [\*4]

Civil Action 4839 was originally filed by the Kellers in this court on July 25, 1973, against Clark, setting forth the corresponding allegations in the answer and counterclaim of Civil Action 4875, and naming as an additional defendant Clark Equipment, A.G. The complaint alleged that Clark Equipment A.G., pursuant to a similar license agreement with the Kellers, was an exclusive licensee under certain foreign patents corresponding to the licensed patents in the agreement with Clark, and had failed to account and pay for royalties allegedly due under this contract. This action was consolidated with Civil Action 4875 on December 21, 1973.

On July 18, 1974, the court ordered a separate trial on the issue of validity of the three patents. After a lengthy trial to the court, in an unpublished memorandum decision dated September 23, 1976, this court held the 503 patent and the 254 patent to be valid. The court found the subject matter of the 117 patent to be nonobvious to one possessing ordinary skill in the art, but concluded that the patent was invalid pursuant to the provisions of 35 U.S.C. 102(b) because a machine incorporating all the elements of the 117 patent was "on sale" [\*5] more than one year prior to the filing of the patent application. On appeal, the Eighth Circuit Court of Appeals affirmed this court's holding as to the 503 and 117 patents, but reversed this court's holding that the 254 patent was valid. *Clark Equipment Co. v. Keller*, 570 F.2d 778, 197 USPQ 209 (8th Cir. 1978), cert. denied, 439 U.S. 825, 200 USPQ 64 (1978).

The third party complaint against the law firm of Williamson, Bains & Moore has been voluntarily dismissed with prejudice. Furthermore, the Kellers' claim against Clark Equipment, A.G., in Civil Action 4839, and the question of foreign patents has been settled and dismissed as an issue in this litigation. Clark moved for summary judgment on the 117 patent late filing issue, alleging the claim was barred by the statute of limitations and that Cyril Keller was not a proper party because he was not a named co-inventor on the 117 patent. The motions were denied. *Keller v. Clark Equipment Co.*, 474 F.Supp. 966, 206 USPQ 478 (D.N.D. 1979). n1

n1 For a more detailed procedural history of this case, see this court's memorandum decision of September 23, 1976, and the Eighth Circuit's

opinion on appeal, supra.

#### Issues Remaining [\*6]

Several issues remain to be decided. One of the unresolved issues in Civil Actions 4875 and 4839, is whether Clark is liable to the Kellers under their royalty agreement as it relates to the 503 patent. This requires a determination whether the structure claimed and disclosed in the 503 patent is embodied in any loader manufactured by Clark and its sublicensees from the time Clark ceased paying royalties to the Kellers. Another related issue is whether the doctrine of patent marking estoppel estops Clark from denying the incorporation of the 503 patent structure in its skid steer loaders.

A second unresolved issue is whether Clark is liable to the Kellers for damages resulting from the late filing of the 117 patent. This involves determining whether the Melroe Manufacturing Company breached either a contractual duty or tort duty owed to the Kellers by failing to diligently prepare and timely file the application for the 117 patent. In the event this issue is found in favor of the Kellers, the additional issue of whether Clark, as successor to the Melroe Manufacturing Company, can be held liable for Melroe's breach of duty, must be decided.

#### Jurisdiction

The court has [\*7] jurisdiction in Civil Action 4875 under the Declaratory Judgment Act, 28 U.S.C. § 2201 and 2202; the amount in controversy exceeds the sum of Ten Thousand Dollars (\$ 10,000.00) exclusive of interest and costs; is between citizens of different states, 28 U.S.C. § 1391(a) and § 1338, and venue lies in this judicial district pursuant to 28 U.S.C. § 1391(a).

In Civil Action 4839, the court has jurisdiction over the subject matter under 28 U.S.C. § 1332(a), there being diversity of citizenship, the amount in controversy exceeds Ten Thousand Dollars (\$ 10,000.00), and venue lies in this judicial district under 28 U.S.C. § 1391(c). Royalty Liability Under the 503 Patent The Evidence, Findings, and Conclusions

1. U.S. Patent No. 3,151,503 was issued to Louis J. Keller and Cyril N. Keller on October 6, 1964. The 503 patent is entitled "TRANSMISSION SYSTEM."

2. Clark is the successor in interest to the former Melroe Manufacturing Company, which was exclusively licensed by the Kellers under the 503 and 117 patents pursuant to an October 1, 1963 written agreement. (Ex. 553).

3. When Clark acquired the Melroe Company in 1969, the licenses as well as the other assets of [\*8] Melroe were transferred to Clark. After Clark acquired

the Melroe Company, it continued to pay royalties to the Kellers pursuant to the October 1963 license agreement.

4. In May, 1971, Clark entered into its own license agreement with the Kellers which superceded the 1963 agreement. A copy of the agreement is in evidence as Exhibit 551. By the terms of the license agreement, Clark obtained an exclusive license, with the right to grant sub-licenses, to make and sell self propelled loader vehicles embodying the inventions disclosed and claimed in the aforementioned 503, 117 and 254 patents.

5. Pursuant to the provisions of paragraph 4 of the license agreement, Clark agreed to pay the Kellers a royalty of Fifteen dollars (\$ 15.00) for each licensed vehicle made and sold by Clark in a country where there is a licensed patent and Ten Dollars (10.00) for each licensed vehicle made or sold by a sublicensee of Clark in a country where there is a licensed patent.

6. In March 1970, Clark entered into a nonexclusive sublicense agreement relating to the three patents with J.I. Case Company. In December 1970, Clark entered into a similar agreement with Owatonna Manufacturing Company, [\*9] Inc. (Exs. 554,555).

7. Clark paid royalties to the Kellers under their May 1971 agreement until early 1972. Shortly thereafter it filed the declaratory judgment action.

8. The application for the 503 patent was filed on December 1, 1958. A copy of the patent was received into evidence as Exhibit 1, and is attached in the appendix to this Memorandum. Exhibit 8 is a copy of the Patent Office file wrapper of the 503 patent. Exhibit 613 is a below up of the drawings of the 503 patent.

9. The 503 patent application disclosed a transmission system for self propelled vehicles having independently rotatable propulsion wheels. As disclosed by the drawings of the 503 patent, each of the two propulsion wheels W has a separate but identical transmission system consisting of a pair of clutch units 9 and 9' rotating on stub shafts 12 and 12' connected to plate P. Each clutch unit consists of a pair of clutch plates 11, 11' and 10, 10' adapted for movement into radial frictional clutching engagement with one another when axial pressure is exerted on cam followers 17 and 17'. Mounted on plate P and interposed between plate P and cam followers 17 and 17' is an elongate slideable [\*10] shifting bar 18 tapered on each end to form cam elements 19 and 19' which can be selectively engaged with cam followers 17 and 17' to move their respective clutches into driving engagement. The thinner middle portion of bar 18 allows both clutches to be simultaneously disengaged resulting in idling of wheel W. Chain belt 20 connects the source of power with sprockets 10a and 10a' on the outer

clutch plates 10 and 10' of both clutches, causing them to be rotated in the same direction. Chain 21 is trained over sprocket 11a on inner clutch plate 11' and under sprocket 11a of inner clutch plate 11 and around sprocket 23, which in turn is connected to the propulsion wheel W by chain 25. By training chain 21 under one sprocket wheel and over the other, the chain, as well as wheel W will be driven in opposite directions according to which clutching unit is engaged, thereby providing selective reverse and forward driving of the propulsion wheel W. This permits the transmission system in cooperation with the propulsion wheels to perform the dual functions of driving and steering the vehicle.

10. The 503 patent application originally contained 11 claims reciting a transmission system [\*11] for a self propelled vehicle. (Ex. 8. File Wrapper of 503 patent, pages 8-13).

11. In Patent Office action on April 13, 1959, the examiner rejected all the claims. (Ex. 8 File Wrapper of 503 patent, pages 16 and 17). Claims 1-7 and 9 and 10 were rejected as fully anticipated by the Loyd patent. As described by the examiner, Loyd disclosed a self-propelled vehicle having independently rotatable propulsion wheels, a source of power, a belt driven mechanism for transmitting driving power to each wheel, a clutch assembly comprising a pair of clutches adapted to be moved into and out of clutching engagement, one of said clutches being connected to drive the propulsion wheel in a forward direction when engaged, the other clutch being connected to drive the propulsion wheel in a backward direction when engaged and shifting means adapted to selectively engage said clutches.

12. The examiner deemed claims 8 and 11 as unpatentable over Loyd in view of the patent in Schreck.

13. The Schreck patent was introduced into evidence as Exhibit 230. Exhibits 224 and 225 are blowups of the patent drawings. In its memorandum decision of September 23, 1976 this court described the Schreck [\*12] patent as follows:

The Schreck patent discloses a self-propelled dolly which is controlled by an operator walking in front of the dolly. As disclosed by the drawings of the Schreck patent, steering and driving control is achieved through a draft tongue 6 having a rotatable gripping handle 61. A linkage bar 63 connected to handle 61 serves to move a link bar 51 (Fig. 6) for actuation of a pair of clutch units 21, 31 and 22 and 32 through crank arms 49, 50 connected to the opposite ends of link 51. The two clutch assemblies are mounted on upper and lower shafts 16, 17. Shiftable collars 39, 46 on the clutch shafts serve to engage the clutches in response to axial displacement of

those collars by thrust pins 58 as the collars are rotated simultaneously by link 51 and crank arms 49, 50. The single dolly support wheel 5 of Schreck is rotationally mounted for steering action by swinging movement of the draft tongue 6. Upward movement of draft tongue 6 stops the vehicle by urging brake shoe 68 against wheel 4. With the draft tongue 6 in an upward position, gripping handle 6 cannot be moved in such a way as to engage the clutches for forward movement of the dolly. Power is transmitted [\*13] from a motor 12 through a chain 29 to the input sprockets 26, 27 on the clutch shafts 16, 17. A final drive chain 42 to the dolly wheel 4 has its inside face wrapped around clutch output sprocket 36 and its outside face wrapped around lower clutch output sprocket 37. Thus wheel 4 will be driven forwardly or rearwardly depending upon whether the upper or lower clutch assembly is engaged by hand rotation of handle 61.

14. In reference to claims 8 and 11 the examiner was of the opinion that it would not constitute invention to substitute a forward and reverse drive means such as that shown by Schreck for the forward and reverse means of Loyd. This was felt to be an obvious step to one skilled in the art. The examiner also noted that the Schreck patent teaches the concept of training the driven belt over one driving sprocket and under the other driving sprocket, said sprockets driving in the same direction, so as to obtain a forward or reverse drive of the driven belt depending on which clutch is engaged. It was further noted that Schreck disclosed a single control means for simultaneous engagement of one clutch and disengagement of the other. (Ex. 8, page 17).

15. Original [\*14] claim 11 had claimed the following combination:

In a self-propelled vehicle having independently rotatable propulsion wheels and a source of power for driving said wheels, a separate transmission system for propelling each of said wheels, each said transmission system comprising a pair of clutches, each said clutch comprising a pair of rotatable, coaxially mounted clutch plates adapted for movement into and out of frictional clutching engagement with one another, belt drive means interconnecting one clutch plate of each clutch with each other and with the source of power and adapted to rotate said clutch plates simultaneously in the same direction, belt drive means interconnection the other clutch plate of each clutch with each other and with the propulsion wheel, the connection between the belt drive and the clutch plates being such that each plate drives the belt and propulsion wheel in an opposite direction to provide forward and reverse drive for said wheel, and a movable shifting member adapted to selectively engage

the clutches to transmit forward or reverse driving power to the propulsion wheel or simultaneously disengage both clutches to permit idling of said wheel.

16. [\*15] In response to the rejection by the examiner of its previous claims, the Kellers, through their patent attorney Thomas Lennon, filed an amended application of July 6, 1959. In it they cancelled claims 1, 2, 3, 4 and 10, amended claims 5, 6, 7, 8, 9 and 11 and added new claim 12. (Ex. 8, pages 18-23).

17. Claim 11 was amended by deleting language in the last four lines and adding language so that the last portion of the claim read as follows:

\* \* \* provide forward and reverse drive for said wheel, cam follower means associated with each of said clutches, and a movable shifting member having a camming surface opposed to and contiguous with adjacent pairs of said cam follower means, said camming surface including a pair of drive promoting cam portions and an idling portion and means for moving said member to selectively engage one of said drive promoting cam portions with one of said cam followers or with said idling portion to transmit forward or reverse driving power to said propulsion [sic] wheel or simultaneously disengage both clutches to permit idling of said wheel.

18. New claim 12 had a substantially similar recitation, but more specific, of an elongate, slidable [\*16] shifting member having a pair of longitudinally spaced apart protruding cam portions contiguously opposed to cam follower means carried by clutches in combination with a single operating member in the vehicle cab for reciprocating the slidable member across the cam followers to selectively engage one of the cam portions with one of the cam follower means to drivingly engage one of the clutches. (Ex. 8, page 20).

19. In remarks made by the Kellers' attorney in the amendment, it was argued that it would not be obvious to one skilled in the art to substitute the drive system of Schreck in the structure of the Loyd patent. In addition he made the following argument:

[T]he shifting mechanism disclosed by Schreck for optionally moving his clutches into and out of driving engagement is quite dissimilar from that shown by applicant and claimed by him, the shifting mechanism of the Schreck device being considerably more complicated and requiring a greater number of elements and a complicated linkage which is more likely to result a malfunction than [sic] is applicants [sic]. (Ex. 8, pages 22 and 23).

20. Amended claim 5 reads as follows:

In a self propelled vehicle having [\*17] indepen-

dently rotatable propulsion wheels, and a source of power for driving said wheels, a transmission system for each wheels [sic] each said system comprising two pairs of clutching members, each of said pairs being adaptable for moving into and out of clutching engagement with one another, means connecting one clutching member of each pair with the source of power to drive said member, means connecting the other clutching member of each pair with the propulsion wheel in such fashion as to cause forward or reverse drive depending on which pair of clutching members are engaged, cam follower [sic] means associated with each of said pairs of clutching members, and shifting means including a cam member adjacent said cam followers and selectively cammingly engaging one or the other of said cam followers to selectively move one or the other of said pairs of clutch members into clutching engagement so as to selectively drive the propulsion wheel forward or back as desired.

21. On November 10, 1959, the examiner made his second report which stated in part as follows:

Claims 5 and 6 are rejected as unpatentable over the patent of record to Loyd in view of the patent of record to [\*18] Schreck. It would be considered obvious to one skilled in the art and an unpatentable step to substitute the forward and reverse unit of Schreck for the forward and reverse unit at each wheel of the Loyd device. Note that elements 39 of Schreck may be termed cam members and elements 58 may be termed cam follower means. Claims 7-9 were rejected as indefinite. The examiner allowed claims 11 and 12 which became claims 1 and 2 of the 503 patent. (Ex. 8, page 24).

22. In response to the second report of the examiners, the Kellers on March 30, 1960, further amended their application. They amended claims 5-9 and added new claims 13-21. (Ex. 8, pages 25-37).

23. On June 29, 1960, the examiner deemed the amendment to be incomplete, (Ex. 8, page 38), whereupon the Kellers again amended the application on July 19, 1960. (Ex. 8, pages 39-50).

24. On April 25, 1961, the examiner, citing three new patents, including Hellwarth, rejected the amended claims as being unpatentable over the prior art. The Hellwarth patent is Exhibit 229.

25. In response to the examiner's actions, the Kellers amended their application on October 27, 1961. They cancelled claims 5, 6, 7, 9, [\*19] 15, 16 and 20, amended claims 13, 14, 17 and 18, and added new claims 22 and 23. (Ex. 8, pages 54-63).

26. In remarks to the examiner, the Kellers' attorney stated that new claim 22 was drawn along the same

general lines as allowed claim 11 and differed therefrom only in the recitation of the directions in which the clutch plates are rotated. He further stated as to new claim 23 as follows:

New claim 23 is drawn along the same lines as new claim 22 with the exception that the shifting means has been recited in different terms so as to provide applicant with a scope of protection different from that provided by allowed claims 11, 12 and new claim 22. Since these new claims 22 and 23 are patterned along the same general lines as allowed claim 11, they are also believed to be in allowable form. (Ex. 8, page 58).

27. As this court found in the validity portion of the trial (Memorandum decision of September 23, 1976, page 24), the same basic cam actuated clutch mechanism was again recited in application claims 22 and 23. This recitation included a movable shifting member with a pair of drive promoting cam portions and an idling portion and means for moving the shifting [\*20] member to selectively engage one of the drive promoting cam portions with one of a pair of cam followers or with said idling portion no transmit forward or reverse driving power to a propulsion wheel or to simultaneously disengage both clutches to permit idling of the wheel. Application claim 23 included a similar recitation of cam actuating means for the vehicle clutches, in slightly different form.

28. In action taken on February 2, 1962, the examiner allowed application claims 11, 12, 22 and 23, and rejected all others as being anticipated by the prior art. (Ex. 8, pages 64-67). Application claims 22 and 23 became claims 3 and 4 of the 503 patent.

29. The Kellers' subsequent efforts to obtain patent protection on the vehicle itself were unsuccessful, for it was the position of the examiner as well as the U.S. Patent Office Board of Appeals that the Hellwarth patent already disclosed a land vehicle with independently rotatable propulsion wheels which could be used for steering the vehicle. (Ex. 8, pages 131-33).

30. The accused device is a clutch driven skid steer loader manufactured by Clark and its two sublicensees J.I. Case and Owatanna Manufacturing Company. [\*21]

31. Clark also manufactures hydrostatic driven skid steer loaders. They do not employ a clutching mechanism. A hydrostatic machine is depicted in parts manual, Exhibit 12.

32. The drive system of the clutch driven loaders is typified by the drive of the Model 610 "Bobcat" loader manufactured by Clark and which is depicted in parts

manual, Exhibit 10. (Tr. Trans. Vol. I, page 152). The clutch drive is also depicted in the drawings of the 117 patent. (Tr. Trans. Vol. 1, page 74, testimony of Robert Gottschalk). Exhibit 3 is a copy of the 117 patent.

33. Exhibits 4, 5 and 6 are blowups of the drawing of the clutch mechanism disclosed in the 117 patent. Exhibit 618 is a blowup of page A-13 of Exhibit 10, a figure depicting the transmission system of the Model 610 "Bobcat" loader.

34. The clutch driven "Bobcat" is a small self-propelled loader having four propulsion wheels. Referring to the 117 patent drawing, Fig. 4, Exhibit 4, there are two propulsion wheels 11 on each side, which rotate independently from the two on the opposite side. Each side has separate but identical transmission systems. Referring to exhibit 618, each transmission system consists of two clutches. [\*22] Each clutch has an input plate 15 and an output plate 18 rotated around a common axis, shaft 12. The source of power is transferred to sprocket 27. A chain connecting sprocket 27 with the two outer clutch plates 18, drives the two clutch plates simultaneously in the same direction. Chain 19 is trained over one of the inner clutch plates 15 and under the other inner clutch plate, and around sprocket 20, which in turn transfers power to the propulsion wheels. This over and under arrangement results in the two propulsion wheels being propelled in either a reverse or forward direction depending on which clutch is engaged. The shifting member for the clutches consists of items 5, 10, and 11 which are operated by lever 6. Items 11 are externally threaded collars and are fixed to shafts 12. Items 5 are internally threaded rotary actuators which are positioned on collars 11. Item 10 is a bar connecting the rotary actuators in such a manner that when it is moved forward or backward, the actuators are rotated. The threads on one actuator and its corresponding collar is right handed while the other actuator and the corresponding collar is left handed. Thus, rotation of actuators 5 [\*23] causes those actuators to move axially on the fixed threaded collars 11. The opposite threaded arrangement causes one of the actuators to move toward and exert pressure on thrust bearing 13 and washer 14, and the corresponding clutch plate, engaging that clutch. Simultaneously, the other actuator is moved axially away from the other clutch, disengaging it. Reverse movement of bar 10 will in turn reverse the movement of the actuators and change the engagement of the clutches. The actuators can be positioned so as to put both clutches in a neutral position.

35. The 1971 exclusive license agreement between Clark and the Kellers provided that Clark shall apply to all devices embodying the inventions disclosed and claimed in the three patents, patent makings for the three

patents in accordance with the applicable statutes.

36. On all "Bobcat" skid steer loaders manufactured by Clark, a patent marking plate has been utilized.

37. The marking plates contain the heading "COVERED BY ONE OR MORE OF THE FOLLOWING PATENTS." Exhibit 777 is an example of a patent making decal appearing on the loaders in 1979.

38. The plates are revised periodically. The procedure followed is [\*24] that Clark's legal staff contacts the Engineering Liaison Supervisor, advising him that a patent number should be added or deleted. The Supervisor in turn initiates an engineering change request which initiates the changes required. Exhibit 776 is an example of such an engineering change notice.

39. Since 1972; the plates have been amended several times and at various times have contained a listing of from 9 to 38 United States Patents. Exhibit 228 is a compilation of all the patents which were shown on the marking plates for the skid steer loaders since 1972.

40. Until about 1974, Clark applied a universal patent marking plate on both their farm implements and their skid steer loaders manufactured by their Melroe Division. After that time, the Melroe Division split into an Agricultural Implement Division and a Bobcat division. Thereafter, each division had its own patent plate.

41. The same patent plates appear on both the clutch driven and hydrostatic models of the Bobcat loaders. The patents listed include some applicable only to hydrostatic loaders. Patents are also listed which cover optional attachments for the Bobcat not sold with the basic units.

42. U.S. [\*25] Patent No. 3,151,503 has been listed on all patent marking plates for all models of skid steer loaders manufactured and sold by Clark from January 1, 1972 to date. (Response to Clark to Kellers' Requests for Admissions, Ex. 619).

#### Conclusions of Law

The court concludes on the basis of all the evidence that none of the skid steer loaders manufactured by Clark and its sublicensees embody the invention disclosed and claimed in the 503 patent.

The court further concludes that Clark is not estopped by reason of its marking the 503 patent number on their skid steer loaders from denying royalty liability.

#### Discussion of the Facts and Application of the Law

It is well settled that the claims in a patent are the measure of the patentee's rights. *L.S. Donaldson Company v. LaMaur, Inc.*, 299 F.2d 412, 417, 132

USPQ 486, 490 (8th Cir. 1962). In determining the issue of infringement, a specific format employing two analytical techniques is generally followed. First, the court determines whether there is literal infringement. And if there is no literal infringement, there may be infringement under the doctrine of equivalents. See *Parmelee Pharmaceutical Company v. Zink*, 285 F.2d 465, [\*26] 469, 128 USPQ 271, 274-275 (8th Cir. 1961).

As stated in *Graver Mfg. Co. v. Linde Co.*, 339 U.S. 605, 607, 85 USPQ 328, 330 (1950), "In determining whether an accused device or composition infringes a valid patent, resort must be had in the first instance to the words of the claim. If [the] accused matter falls clearly within the claim, infringement is made out and that is the end of it." The literal words of the patent claim constitute, however, only the starting point in the determination of literal infringement.

Although the claims made in the patent are the sole measure of protection, *Aro Mfg. Co. v. Convertible Top Co.*, 365 U.S. 336, 339, 128 USPQ 354, 356-357 (1961), and although a patent is not to be limited to the preferred embodiments shown in the specifications, *Continental Paper Bag Co. v. Eastern Bag Co.*, 210 U.S. 405, 419 (1908); *Ziegler v. Phillips Petroleum Company*, 483 F.2d 858, 869, 177 USPQ 481, 487-488 (5th Cir. 1973), cert. denied, 414 U.S. 1079, 180 USPQ 1 (1973), to determine their scope, the claims are to be construed in the light of the specifications and drawings and both are to be read with a view of ascertaining the invention. *United States v. Adams*, [\*27] 383 U.S. 39, 49, 148 USPQ 479, 482-483 (1966); *Studiengesellschaft Kohle v. Eastman Kodak Co.*, 616 F.2d 1315, 1324, 206 USPQ 577, 585-586 (5th Cir. 1980); *Ellipse Corporation v. Ford Motor Company*, 452 F.2d 163, 167, 171 USPQ 513, 514-515 (7th Cir. 1971), cert. denied, 406 U.S. 948, 173 USPQ 705 (1972); *Ethyl Corporation v. Borden, Inc.*, 427 F.2d 206, 209, 166 USPQ 97, 99 (3rd Cir. 1970); *Illinois Tool Works, Inc. v. Bruning*, 389 F.2d 38, 40, 156 USPQ 610, 610-611 (9th Cir. 1968); *Food Processes, Inc. v. Swift company*, 280 F.Supp. 353, 357; 155 USPQ 640, 643-644 (W.D. Mo. 1966); *Rota-Carb Corporation v. Frye Manufacturing Company*, 197 F.Supp. 54, 60, 130 USPQ 307, 312-313 (S.D. Iowa 1961), aff'd, 313 F.2d 443, 136 USPQ 507 (8th Cir. 1963). Additionally, proceedings before the patent office should be considered in determining the scope of the claims. *Graham v. John Deere Co.*, 338 U.S. 1, 33, 148 USPQ 459, 472-473 (1966); *Ingersoll-Rand Company v. Brunner & Lay, Inc.*, 474 F.2d 491, 498, 177 USPQ 112, 116-117 (5th Cir. 1973), cert. denied, 414 U.S. 865, 179 USPQ 321 (1973); *Autogiro company of America v. United States*, 384 F.2d 391, 398-99, 155 USPQ 697, 703-704 (Ct. Cl. 1967); *Morpul*, [\*28] Inc.

*v. Glen Raven Knitting Mill, Inc.*, 357 F.2d 732, 734, 149 USPQ 1, 2-3 (4th Cir. 1965). Finally, the state of the prior art is an important factor in construing the scope of a claim. See *Graham v. John Deere Co.*, *supra*; *Decca Limited v. United States*, 420 F.2d 1010, 1013, 164 USPQ 348, 350-351 (Ct. Cl. 1970), cert. denied, 400 U.S. 865, 167 USPQ 321 (1970); *Morpul, Inc. v. Glen Raven Knitting Mill, Inc.*, *supra*; *Hansen v. Siebring*, 231 F.Supp. 634, 642, 142 USPQ 465, 471 (N.D.Iowa 1964), aff'd, 346 F.2d 474, 145 USPQ 634 (8th Cir. 1965), cert. denied, 382 U.S. 943, 147 USPQ 541 (1965). The prior art cited in the file wrapper gives clues as to what the claims do not cover, *Autogiro Company of America v. United States*, *supra* at 399, 155 USPQ at 703-704, for it is axiomatic that a claim must be construed to be limited so as to exclude the prior art. *Smith v. Mid Continent Inv. Co.*, 106 F.2d 622, 624, 43 USPQ 59, 60-61 (8th Cir. 1939).

Furthermore, to constitute literal infringement it is not enough that the words of the claim read literally on the accused device. This is only an initial hurdle in establishing literal infringement. In *Westinghouse v. Boyden Power Brake Co.*, 170 [\*29] U.S. 537 (1898), the Court stated as follows:

But even if it be conceded that the Boyden device corresponds with the letter of the Westinghouse claims, that does not settle conclusively the question of infringement. We have repeatedly held that a charge of infringement is sometimes made out, though the letter of the claims be avoided. \* \* \* The converse is equally true. The patentee may bring the defendant within the letter of his claims, but if the latter has so far changed the principle of the device that the claims of the patent, literally construed, have ceased to represent his actual invention, he is as little subject to be adjudged an infringer as one who has violated the letter of a statute has to be convicted, when he has done nothing in conflict with its spirit and intent. *Id.* at 568 (citations omitted).

Therefore, in order to sustain a charge of literal infringement, not only do the words of the claim have to read on the accused device, but the accused device must be substantially identical with the one alleged to be infringed in the result attained, the means of attaining that result, and the manner in which its different parts operate to produce that result. [\*30] If the accused device is substantially different in either of these respects, the charge of literal infringement is not sustained. *Graver Mfg. Co. v. Linde Co.*, *supra* at 608-09, 85 USPQ at 330-331; *Nat. Rolled Thread, Etc. v. E.W. Ferry Screw Prod.*, 541 F.2d 593, 599-600, 192 USPQ 358, 363-364 (6th Cir. 1976); *Business Forms Finishing Service, Inc. v. Carson*, 452 F.2d 70, 76, 171 USPQ 519, 523-524

(7th cir. 1971); *Decca Limited v. United States*, *supra*, at 1014, 164 USPQ at 351-352; *Autogiro Company of America v. United States*, *supra* at 399-400, 155 USPQ at 703-705; *Skirow v. Roberts Colonial House, Inc.*, 361 F.2d 388, 391, 149 USPQ 882, 884-885 (7th Cir. 1966); *Pursche v. Atlas Scraper and Engineering Co.*, 300 F.2d 467, 482, 132 USPQ 104, 115-116 (9th Cir. 1962). See also *Ronson Patents Corp. v. Sparklets Devices*, 202 F.2d 87, 93, 96 USPQ 201, 205-206 (8th Cir. 1953); *Montgomery Ward & Co. v. Clair*, 123 F.2d 878, 881, 51 USPQ 499, 502-503 (8th Cir. 1941).

In the event the words of the patent claim do not read literally on the accused structure, infringement is not necessarily ruled out. The doctrine of equivalents prevents one from avoiding infringement by making changes in a [\*31] patent which take the copied matter outside the literal language of the claim, but add nothing to the invention. *Graver Mfg. Co. v. Linder Co.*, *supra* at 607, 85 USPQ at 330. In this circuit, applying the equivalency test entails making the determination that, "the infringing device [is] substantially identical with the one alleged to be infringed in (1) the result attained; (2) the means of attaining that result; and (3) the manner in which its different parts operate and cooperate to produce that result." *Farmhand, Inc. v. Craven*, 455 F.2d 609, 611; 173 USPQ 1, 2-3 (8th Cir. 1972). The relationship between literal infringement and infringement under the contrine of equivalents has been described as follows: "Equivalence is the observe of the discounting of literal overlap. The latter is to protect the accused; the former to protect the patentee." *Autogiro Company of America v. United States*, *supra* at 400, 155 USPQ at 704-705.

The parties are not agreed as to the scope of any of the four claims of the 503 patent but are agreed that if claim 4 does not cover the Bobcat loader, neither do the other three. (Tr. Trans. Vol. II page 88, cross-examination of John C. Barnes). Thus, [\*32] the first step in determining whether there is literal infringement is reading the language of claim 4 of the 503 patent on the accused device, the clutch-driven Bobcat loaders. In determining possible infringement, it must be shown that every essential element of the combination claim, or its equivalent, is embodied in the accused device. Absent such a showing, infringement cannot be upheld. *Scharmer v. Carollton Mfg. Co.*, 525 F.2d 95, 103, 187 USPQ 736, 742 (6th Cir. 1975).

Claim 4 reads as follows:

In a self-propelled vehicle having independently rotatable propulsion wheels and a source of power for driving said wheels, a separate transmission system for propelling each of said wheels, each said transmission system comprising a pair of clutches, each of said

clutches comprising a pair of rotatable, co-axially mounted clutch plates adapted for movement into and out of frictional clutching engagement with one another, first belt drive means interconnecting one clutch plate of each clutch with each other and with the source of power and adapted to rotate said clutch parts simultaneously, second belt drive means interconnecting the other clutch plate of each clutch with each [\*33] other and with the propulsion wheel, one of said belt drive means being wound in the same direction with respect to the plates engaged therewith whereby movement thereof in one direction causes rotation of said plates in the same direction, the other of said belt drive means being wound in opposite directions with respect to the plates engaged therewith whereby movement thereof in one direction causes rotation of said plates in opposite directions with respect to each other, cam follower means cooperatively interconnected with each of said clutches, and shifting means including single cam members interconnected by a single shiftable connecting member and contiguous with each of said cam follower means and adapted to selectively cammingly engage one or the other of said cam follower means upon shifting movement of said connecting member for shifting movement of said connecting member for selectively engaging one or the other of said clutches or to simultaneously disengage both of them to permit idling of said wheel.

The accused device is a self-propelled vehicle having a source of power for driving the propulsion wheels. It has four propulsion wheels, all of which are not independently [\*34] rotatable. There is not a separate transmission system for each wheel. However, the two wheels on one side of the vehicle are independently rotatable from the two wheels on the other, and each side has a separate transmission system. Referring to Exhibit 618, each transmission system is comprised of a pair of clutches. Each clutch is comprised of a pair of rotatable, co-axially mounted clutch plates 15, 18, adapted for movement into and out of frictional clutching engagement with one another. There is a belt drive means interconnecting one clutch plate, 18 of each clutch with each other and with the source of power, 27 to rotate the clutch plates simultaneously in the same direction. There is a second belt drive means, 19 interconnecting the other clutch plate, 15 of each clutch with each other and with the propulsion wheel. This second belt drive is wound in opposite directions with respect to plates 15 whereby movement of the belt in one direction causes rotation of plates 15 in opposite directions with respect to each other. There are cam follower means, 13, 14 cooperatively interconnected with each of said clutches. The accused device has shifting means, including single [\*35] members 5, interconnected by a single shiftable



connecting member 10 and contiguous with cam follower means 13, 14. The shifting means are adapted to selectively engage one or the other of the cam follower means upon shifting movement of connecting member 10, for selectively engaging one or the other of the clutches or to simultaneously disengage both clutches to permit idling.

In just reading the words of claim 4 on the accused device, it would appear that the clutch driven Bobcat embodies all the elements of the claim, except for the language describing a transmission system for each wheel. The accused structure differs from the claim in this respect only in having an additional wheel on each side. As a general rule the addition of an element to a patented structure does not avoid infringement. See *King-Seeley Thermas Co. v. Refrigerated Dispensers, Inc.*, 354 F.2d 533, 540, 148 USPQ 114, 119-120 (10th Cir. 1965); *Hayes Spray Gun Company v. E.C. Brown Company*, 291 F.2d 319, 326, 129 USPQ 383, 389 (8th Cir. 1961); *Aluminum Company of America v. Sperry Products, Inc.*, 285 F.2d 911, 924, 127 USPQ 394, 404-405 (6th Cir. 1960); *Ronson Patents Corp. v. Sparklets Devices*, 202 F.2d [\*36] 87, 93, 96 USPQ 201, 205-206 (8th Cir. 1953). Here, the addition of a wheel on each side does not substantially change the function of the vehicle and the means employed to perform that function. Therefore, it is doubtful that that aspect of change would avoid infringement.

Of greater concern, however, and that which was the focus of this portion of the lawsuit, is whether the accused device embodies the essence of the 503 patent, the cam actuated shifting means.

From a reading of the file wrapper it is evident that in each of the four claims it was the portion describing the shifting means which constituted invention over the prior art. For example, when patent claims 1 and 2 were allowed, the examiner rejected others such as claim 5, which were similar in all respects but had a broader recitation of the shifting means. Furthermore, it was that portion of patent claim 1 describing the shifting means which was amended before it was allowed. The examiner was of the opinion that a vehicle having independently rotatable wheels was not invention. This concept was disclosed in the Lloyd patent. Nor was it a novel idea to train the driven chain over one driving sprocket and under [\*37] the other so as to obtain forward or reverse drive depending on which clutch was engaged. This concept was taught in Schreck. The examiner also stated that it would be considered obvious to one skilled in the art and an unpatentable step to substitute the forward and reverse unit of Schreck for the forward and reverse unit of each wheel of the Lloyd vehicle. The examiner had

not changed his position on any of these matters when he allowed claim 1 after it had been amended. In addition, at this state of the patent prosecution, it appears that the examiner considered Schreck to be the most pertinent prior art concerning the shifting means. (Ex. 8, pages 17 and 24). The Kellers' attorney, in referring to the shifting means in his remarks to the examiner, argued that the shifting mechanism disclosed by Schreck was dissimilar from that shown in the applicants' device in that the latter was less complicated. Therefore, it is evident that the examiner allowed claims 1 and 2 because he was of the opinion that the cam actuating shifting means disclosed in those claims was patentable over the prior art of Schreck.

When patent claims 3 and 4 were allowed, the Kellers' attorney had argued [\*38] that they were drawn along the same general lines as previously allowed claims 1 and 2. The court adopted this characterization of those claims when it addressed the validity of the patent. Memorandum of Decision and Order, September 23, 1976, page 24. It further found that with respect to the cam actuated clutch drive features claimed in all of the claims of the 503 patent, the patents to Schreck and Hellwarth were the most pertinent prior art. *Id.* page 17, finding 40.

In concluding the 503 patent was valid, the court on page 28 of its Order stated as follows:

\* \* \* but there existed a gap in the teaching of the prior art — Hellwarth and Schreck — as to how to install clutches in such a way to be able to actuate them to maintain steering and forward and reverse control in a smooth and effective manner from the operator's compartment. The Kellers conceived a new clutch drive mechanism, and in addition combined with it an effective, positive cam actuated clutch mechanism which proved to be highly effective and commercially successful. The solution by the Kellers was not readily obvious to one having ordinary skill in the pertinent art.

On the basis of the foregoing, [\*39] the court concludes the invention in the 503 patent lies in that portion of each of the four claims which describes the cam actuated clutch mechanism.

Looking solely to the language of claim 4, it could be argued that the words describing the shifting means read literally on the accused device. However, if this was the test for infringement, the patent law would "reward literary skill and not mechanical creativity." *Autogiro Company of America v. United States*, supra at 399, 155 USPQ at 703-704. "And since the law is to benefit the inventor's genius and not the scrivener's talents, claims must not only read literally on the accused structures,



but also the structures must 'do the same work, in substantially the same way, and accomplish substantially the same result.'" Id. at 399-400, 155 USPQ at 703-705.

In the 503 structure, referring to Exhibit 613, shifting bar, 18 has protruding camming portions 19 and 19' on each end. This bar is adapted to slide horizontally along plate P. Longitudinal slot 19b encloses stub shafts, 12 and 12' so as to keep the shifting member in a contiguous relation with the cam follower means. When the bar is shifted horizontally one or the other [\*40] camming portion will exert axial pressure on cam follower means 17 or 17', which in turn will move their respective clutches into driving engagement. The non-protruding portion of the shifting bar is of sufficient length that it can be positioned to disengage both clutches simultaneously.

Figures 4, 7 and 8 of the 117 patent shown on Exhibits 4, 5 and 6, depict the shifting mechanism for the transmission in a clutch driven Bobcat loader. Referring to those drawings, internally threaded rotary actuator members, represented by the numbers 95, 99 and 100 and colored pink, are threaded on externally threaded collars 96, which collars are fixed in a stationary position on shaft 71 by means of pins 97. Shifting member 101 connects the two actuators at points 102 in such a manner that moving the member forward or backward will cause the actuators to rotate. Rotation of the actuators causes them to screw in or out in relation to fixed collars 96. One actuator and its corresponding collar is right hand threaded and the other actuator and its corresponding collar is left hand threaded. Therefore, when connecting member 101 is moved forward one of the actuators will screw toward and [\*41] exert axial pressure on thrust bearing 93 and the corresponding clutch plate, while the other actuator will simultaneously screw away from its corresponding thrust bearing and disengage the clutch. Moving the shifting member the opposite direction will reverse the movement of the actuators. The member 101 can also be positioned so as to put both clutches in a neutral position.

The shifting mechanism of the accused device is substantially identical with the structure of the 503 patent in the result attained. Both achieve selective engagement of the clutches for reverse or forward driving power. However, the means by which they attain that result and the manner in which their different parts operate to produce that result are substantially different. The shifting bar in the 503 patent requires plate P to aid in the camming action. It provides the axial force of the camming protrusions on bar 18. In the 503 structure the connecting member also acts as the cam and is contiguous with the cam followers. In the accused structure, connecting member 101 merely connects the

cam members and is not contiguous with thrust bearing 93. Furthermore, in the accused structure, the force [\*42] required for the camming action is not provided by any side plate, but rather is provided by the screwing action on the stationary collars, 96. The importance of this latter distinction can be gleaned from Louis Lellers' testimony concerning the development of the rotary actuators. (Tr. Trans. Vol. I pages 137-143, direct examination.)

He described that when the 440 series Bobcat loader, a forerunner to the present Bobcat loaders, was being developed, the same slide bar actuated shifting mechanism disclosed in the 503 patent was used. However, a manufacturing problem with the frame developed which upset the slide bar mechanism. On a side plate on the 440, comparable to plate P on the 503 structure, some welding was done between the two clutches. This caused the plate to warp and create a high spot on which the slide bar could rock. The resulting problems were sticking of the clutches, jerking, and lack of control over the machine. This problem never existed in the 503 structure since there was no welding done in that location. The problem was severe. As Louis Keller described it, "Now when that was warped on the other one, that slick bar gives serious trouble, serious problem [\*43] in the manufacturing of the frame. There was no straight way to straighten it. Anything you weld on the flat plate in the middle, it's going to warp. There was no way we could hold it without a serious cost." (Tr. Trans. Vol. I page 141). As a result, the threaded rotary mechanism was developed. The problem of the warped plate was solved because the plate had nothing to do anymore with the actuating of the clutches.

The threaded rotary actuators later were incorporated in the 117 patent. This court has already made a finding that the principle features recited in certain claims of the 117 patent which contributed to their allowance were the pairs of rotary threaded actuators for actuating the clutches of the vehicle. (Memorandum of Decision and Order, September 23, 1976, page 29, finding 3). The court also found that when the patent examiner allowed the claims in the 117 patent, he had searched the class and subclass in which the 503 patent was cross-referenced. Id. page 51, finding 129. It is therefore presumed that the examiner considered the 503 patent and discarded it as being no more pertinent than the art cited by him. See *Panduit Corporation v. Burndy Corporation*, [\*44] 517 F.2d 535, 538 n.2, 186 USPQ 75, 77 n.2 (7th Cir. 1975), cert. denied, 423 U.S. 987, 188 USPQ 48 (1975).

It is evident that the rotary actuating shifting mechanism of the clutch driven Bobcat loader is substantially different from the 503 structure in both the means by which it attains the desired result and the manner in which

its different parts operate to produce that result. The Bobcat shifting mechanism was developed to overcome deficiencies in the 503 structure. It was not a mere improvement over the 503 structure, but rather was an innovative device employing different principles to more effectively achieve the desired result, and a device later found patentable over the disclosures of the 503 patent.

As previously stated, the prior art is helpful in determining what the claims of the 503 patent does not cover. *Autogiro Company of America v. United States*, supra. Both the examiner and this court treated Schreck as pertinent prior art. Schreck was cited by the examiner both for teaching the over and under belt means and the control means for engaging and disengaging the clutches. (Ex. 8, File Wrapper of 503 patent, page 17). It was by distinguishing the shifting [\*45] means portion of patent claims 1 and 2 from that disclosed in Schreck which led to their being allowed by the examiner. Since claim 4 was drawn along the same lines, Schreck is also relevant prior art as to it. This being the case, claim 4 must be read so as to exclude the shifting means disclosure of Schreck.

The Schreck structure is described in its patent drawings appearing on Exhibits 224 and 225.

Shifting collars 39 and 40 have extending arms 49 and 50. Connecting member 51 connects the arms so that the collars are constrained to rotate simultaneously in the same direction. When the connecting member is moved up or down, the shifting collars are rotated on shafts 16 and 17 respectively and interposed between shifting collars 39 and 40 and inner supporting plate 18. The shifting collar 39 and adjacent stationary collar 52 on upper shaft 16 and the corresponding elements on lower shaft 17 have on their opposed faces circumferentially spaced recesses 56 and 57, which provide seats for opposite ends of thrust pins 58. The pins are regularly spaced around the axis of the collars at an inclination to the opposed faces of the collar. The pins are so disposed that upon rotating [\*46] movement of either collar 39 and 40 in one direction the pins move toward a position parallel with the axis and exert an axial thrust on the collar. The thrust pins engaging one shifting collar are inclined opposite to the pins engaging the other shifting collar so that pressure is applied to one collar when it is turned in one direction and to the other collar when it is turned in the opposite direction. When axial pressure is applied to a collar, it exerts pressure on washer 34 and clutch plate 31, engaging the clutch. Thus by moving connecting member 51 up or down, one or the other of the clutches will be engaged, providing forward and reverse power. A neutral position is also provided.

A literal reading of the language of claim 4 relating to the shifting means so as to read upon Bobcat structure

would also describe the Schreck shifting mechanism. Schreck has shifting means including single cam numbers 39, 40, contiguous with cam follower means 34, connected by a single shiftable connecting member 51. The single cam members are adapted to selectively cammingly engage one or the other of the shifting of connecting member 51 for selectively engaging one or the other of the [\*47] clutches or to simultaneously disengage both of them to permit idling. But this is an impermissible reading, for a claim must be construed to avoid the prior art.

Looking beyond the literal language of the claim, it is evident that although the 503 shifting means attains the same result as the Schreck shifting means, the means by which they attain the result are vastly different. The 503 patent achieves the desired result by a positive cam actuated clutch mechanism, with far less parts and linkages than required by Schreck. The Schreck patent was also considered by the examiner before he allowed the claims of the 117 patent. (Memorandum of Decision and Order, September 23, 1976, page 51, finding 131). The threaded actuators were patentable over the disclosure in Schreck. But if the shifting means portion of claim 4 is read to cover the transmission system in the Bobcat it would also read on the shifting means structure disclosed in Schreck. The file wrapper is clear that when the 503 claims were allowed, the examiner did not intend to give them that scope.

Assuming arguendo that the language of claim 4 reads literally upon the Bobcat transmission system, the later "has [\*48] so far changed the principle of the device that the claims of the patent, literally construed, have ceased to represent [the alleged infringer's] invention." *Westinghouse v. Boyden Power Brake Co.*, supra at 568. Although the shifting mechanism of the Bobcat is substantially identical to the 503 mechanism in the result attained, the means by which they attain that result and the manner in which their different parts operate to produce that result are substantially different. There is no literal infringement on the 503 by the accused device.

Since the court has assumed that the words of claim 4 read literally on the accused structure, the court has also disposed of the issue of the doctrine of equivalents. In finding that the accused structure employs substantially different means to attain the desired result and its parts operate in a substantially different manner than the 503 structure, the court has found that the Bobcat transmission system is not equivalent to the 503 structure. *Farmhand, Inc. v. Craven*, 455 F.2d 609, 611, 173 USPQ 1, 2-3 (8th Cir. 1972).

Having decided that the 503 patent is not infringed by the Bobcat structure, it is necessary to consider the

legal [\*49] effect of Clark's marking its loaders which the patent number. The Kellers contend that because of the marking, Clark is estopped to deny that the clutch driven Bobcat loaders embody the invention disclosed by the 503 patent.

Case law appears to establish that at least in some instances, marking a product with a patent number may estop the marking party from asserting that the product is not covered by the patent. See e.g., *Gridiron Steel Co. v. James & Laughlin Steel Corp.*, 361 F.2d 791, 797, 149 USPQ 877, 881-882 (6th Cir. 1966); *Collis Co. v. Consolidated Machine Tool Corp.*, 41 F.2d 641, 645, 6 USPQ 109, 113 (8th Cir. 1930); *Kant-Skore Piston Co. v. Sinclair Mfg. Corp.*, 32 F.2d 882, 885, 2 USPQ 112, 115-116 (6th Cir. 1929), cert. denied, 281 U.S. 735 (1929); *Crane Co. v. Aeroquip Corporation*, 364 F.Supp. 547, 560, 179 USPQ 596, 606-607 (N.D. Ill. 1973), modified, 504 F.2d 1086, 183 USPQ 577 (7th Cir. 1974); *Canaan Products, Inc. v. Edward Don & Company*, 273 F.Supp. 492, 502 (N.D. Ill. 1966), aff'd, 388 F.2d 540 (7th Cir. 1968); *Touchett v. EZ Paint Corporation*, 150 F.Supp. 384, 391, 113 USPQ 16, 21-22 (E.D. Wis. 1957); *Smiths America Corp. v. Bendix Aviation Corp.*, 140 F.Supp. [\*50] 46, 52-53, 108 USPQ 302, 306-307 (D.C. 1956), aff'd, 248 F.2d 621, 114 USPQ 518 (D.C. Cir. 1957); *Lathrop v. Rice & Adams Corporation*, 17 F.Supp. 622, 626, 33 USPQ 72, 75-76 (W.D.N.Y. 1936).

Clark contends, relying on *Kenyon v. Automatic Instrument Co.*, 186 F.2d 752, 755-56, 88 USPQ 301, 303-304 (6th Cir. 1951), that the doctrine is not applicable in the instant case since the patent plate heading, "Covered by one or more of the following patents," is vague and did not convey to the public that the 503 patent, one of at least nine patents listed, was embodied in the Bobcat loader. The Kenyon case, however, does not stand for that proposition. The court considered the patent plate heading as only one of the factors leading it not to apply patent marking estoppel. This was recognized in *Smiths America Corp. v. Bendix Aviation Corp.*, supra, where the court distinguished Kenyon and defendant was estopped to deny infringement where it had marked its product with plaintiff's patent number on a plate containing five patent numbers under the phrase, "Manufactured Under One or More of the Following Patents."

Clark also argued that the contractual provision concerning patent marking prevents [\*51] patent marking estoppel. It implied that the contract required it to mark the 503 patent number on its skid steer loaders regardless of whether it covered the machine. However, that provision required Clark to mark devices which embodied one of the three patents, in accordance with

the applicable statutes. The court is aware of no statute that requires one to mark a device with a patent number which does not identify a patent embodied in the device. Nor did the contract require this action. This alone is no defense to patent marking estoppel. See *Gridiron Steel Co. v. James Laughlin Steel Corp.*, supra at 796-97, 149 USPQ at 880-882.

The court, however, is hesitant to apply the doctrine, partially because of absence of its application in recent case law and partially because the more recent cases which have applied it appear to have used it as an alternative ground for its decision. In *Gridiron*, supra, the district court had found that defendant's device embodied features of the patent in question but went on to find patent marking estoppel. *Id.* at 796, 149 USPQ at 880-881. In *Smiths America Corp. v. Bendix Aviation Corp.*, supra, *Canaan Products, Inc. v. Edward Don & Company*, [\*52] supra and *Kant-Skore Piston Co. v. Sinclair Mfg. Corp.*, supra, the court did not use the patent marking estoppel doctrine as the sole ground for its decision. Either the court found infringement or considered additional factors not present here. The decision in *Collis v. Consolidated Machine Tool Corp.*, supra, was a suit for unfair competition in the use of a trade name. The court held the defendant was not guilty of laches since its delay had been induced by reliance on plaintiff's false public representations that certain articles were protected by plaintiff's patent which in fact had expired. 41 F.2d at 645, 6 USPQ at 113. In *Crane Co. v. Aeroquip Corporation*, supra, the district court found that the accused device did not infringe the patent. Despite its holding of non-infringement the court held that by reason of marking the patent number on the device, the defendant was estopped from denying it was liable for royalties. On appeal, however, the Seventh Circuit Court of Appeals found there was infringement. In referring to the district court's treatment of marking estoppel, the court stated, "it is unnecessary for us to decide the question whether the court was right in [\*53] holding defendant liable by reason of marking. We express no opinion on that phase of the decision below. 504 F.2d at 1093, 183 USPQ at 581-582.

In the instant case, several factors considered together persuade the court not to apply the doctrine. Other than the marking plates, Clark since 1972 has not represented to the public that their loaders were covered by the 503 patent. The patent plate heading, along with the number of patents listed, upwards to 38, is another such factor. Furthermore, the same patent marking plate containing the 503 patent number was placed on both clutch-driven and hydrostatic machines. The patent numbers included patents which covered only optional attachments. Applying the patent marking estoppel

doctrine as the Kellers wish would reach the result that Clark would have to pay 503 royalties on their hydrostatic loaders, a result not remotely suggested by the Kellers. Also, holders of patents on an optional feature could seek royalties on the loader not equipped with the feature solely because their patent number was listed on the loader. It is equally incredible that the patent marking estoppel doctrine would dictate that Clark pay royalties [\*54] on the clutch driven loaders despite the court's holding that the loader does not embody the invention disclosed in the 503 patent. On the record before the court, the court holds that Clark is not estopped from denying that its loaders embody the invention disclosed in the 503 patent.

The court concludes that Clark is not liable for royalties to the Kellers under their license agreement for the 503 patent.

#### Issue of Late Filing of the 117 Patent Application

##### The Evidence, Findings, and Conclusions

1. In about September, 1958, Louis and Cyril Keller became employed by the Melroe Manufacturing Company in Gwinner, North Dakota. Louis Keller was employed full time working in the engineering department and devoting his time to loader development. He was paid a monthly salary. Melroe Manufacturing provided the work area and all the necessary materials. Louis Keller was so employed until 1967.

2. The transmission system for a three wheel front loader which was the subject of the 503 patent was developed by the Kellers before their employment with Melroe Manufacturing. That patent application was filed on December 1, 1958.

3. On May 19, 1959, the Kellers and Melroe [\*55] Manufacturing entered into an agreement whereby in return for a percentage royalty, the Kellers granted Melroe an exclusive right to manufacture three wheel lifting and scraping devices disclosed in the 503 patent application still being prosecuted. That agreement provided that the Kellers would, at their own expense, continue to protect patent rights, but that Melroe Manufacturing could, at its own expense, take whatever steps it deemed appropriate for establishment and protection of the Keller's patent rights. (Ex. 556).

4. The Kellers' patent attorney at that time was Thomas Lennon, an associate with the law firm of Williamson, Schroeder & Palmatier in Minneapolis. He had processed for the Kellers the 503 patent application and a design patent, D 191,506, covering the design of the structure disclosed in the 503 patent. Louis Keller was sole inventor on the design patent which was filed on April 6, 1960. (Ex. 643).

5. In the summer of 1961, Louis Keller together with Clifford Melroe, then president of Melroe Manufacturing, began developing a new four wheel drive loader.

6. Starting in either September or October, 1961, and continuing into February, 1962, Louis Keller [\*56] on several occasions approached Clifford Melroe about obtaining additional patent protection on the four wheel loader. Clifford Melroe expressed no interest. (Tr. Trans. Vol. IV p. 73).

7. In the fall of 1961, the Kellers were still corresponding with Thomas Lennon concerning the prosecution of the 503 patent. (Exs. 646,647). On November 20, 1961, Louis Keller wrote to Mr. Lennon, enclosing five photographs of the new four wheel "Bobcat" loader, and asked him to review the photographs to see if the design patent covering the three wheel loader would be sufficient to cover the design of the new loader. (Exs. 654,655). The letter and photographs were received by Mr. Lennon on November 22, 1961.

8. On November 24, 1961, Mr. Lennon wrote to Louis Keller stating he had compared the photographs with the design patent on the original loader and that the new loader had a distinctive appearance. He suggested that Louis authorize him to file a new design application for the new loader (Ex. 664).

9. Roger Melroe, then vice president of Melroe Manufacturing, had overheard some of the conversations Louis and Clifford had had concerning patent protection and inquired of Louis [\*57] what the problem was. This was shortly before February 14, 1962. Louis told Roger about his concern of patent protection for the new loader, explaining his understanding of the one year critical date of the patent laws. Roger told Louis to get the patents started. (Tr. Trans. Vol. VII p. 39).

10. On February 14, 1962, Louis Keller wrote to Thomas Lennon authorizing him to go ahead on a design patent. (Ex. 285). On February 16, the Williamson law firm opened a file on the design patent. (Ex. 261).

11. On February 28, Mr. Lennon wrote to Louis Keller requesting additional photographs he needed for work on the new design patent. He also inquired as to the persons involved in the invention. (Ex. 649).

12. On March 16, 1962, Mr. Lennon again wrote to Louis. In that letter, he discussed further progress on the 503 patent application, including an upcoming interview with the Examiner. He also stated that at the first opportunity he was going to visit Melroe's Minneapolis sales office and look at the latest model of the loader so he could give consideration as to whether it would be advisable for Louis to file a mechanical application on

the new loader. He stated this [\*58] would turn in part on the results of the interview with the Examiner concerning the 503 patent. (Ex. 650).

13. Shortly after, Louis sent to Mr. Lennon a series of photographs of the new loader which Lennon had requested. These photographs were received by Mr. Lennon on March 20, 1962.

14. On April 3, 1962, Mr. Lennon wrote to Louis informing him of the results of the interview with the Examiner on the 503 patent. He further stated that after expected action took place on the 503 application, they could discuss the scope of the 503 claims and give consideration as to whether it would be advisable to file a mechanical application on the new loader. (Ex. 651).

15. Around the first of May 1962, Louis met with Thomas Lennon at the Melroe sales office in Minneapolis. There they observed the new loader and took the side panels off to inspect it. After conferring with Mr. Lennon, Louis verbally authorized him to go forward on a mechanical patent application for the new loader. (Tr. Trans. Vol. IV p. 98).

16. On May 25, 1962, Mr. Lennon wrote to Louis informing him that the drawings for the new design patent were completed, and again inquiring who should be listed as [\*59] inventors on the design patent and whether there was going to be an assignment of that patent to Melroe Manufacturing. (Ex. 290).

17. On May 31, 1962, Louis and Cyril Keller and Clifford and Roger Melroe met at the Williamson law office to discuss a license agreement concerning a snow plow attachment the Kellers had developed before coming to work for Melroe Manufacturing. Clifford Melroe had been unaware up to that time of Louis Keller's efforts to get a design and a mechanical patent on the new loader. At the meeting he inadvertently observed the drawings for the new design patent. He became angry, accusing Louis of stealing. Roger attempted to quiet him down, the later, discussions took place. In the course of the discussions it was agreed that since the design patent was nearly completed, Lennon would be allowed to finish it. Louis, Cyril and Clifford were to be listed as co-inventors. Clifford insisted that the design patent be assigned to Melroe Manufacturing. He further demanded that Lennon turn over to him anything relating to the mechanical patent. He stated that he would use Melroe Manufacturing's patent attorney to prepare the application. He specifically [\*60] requested that Lennon provide him with the allowed claims of the 503 patent and those claims he expected to be allowed.

18. Louis Keller did not agree with Clifford Melroe's actions relating to the mechanical application, but felt

powerless to protest because Clifford was his boss. However, Louis relied on Clifford's representations that Clifford would handle the application, and Louis did not take any further action on the mechanical application. Nor was Louis ever consulted in the course of the preparation of the application. (Tr. Trans. Vol. IV p. 107-113).

19. Thomas Lennon construed Clifford's actions as taking away his authority to file a mechanical application. (Depos. of Thomas Lennon, 1-8-80, p. 81).

20. The following day, on June 1, 1962, Mr. Lennon sent Clifford Melroe a list of the claims in the 503 patent application that had been approved. (Ex. 293). On June 7, 1962, Lennon forwarded to Clifford a copy of the claims in the 503 he expected to be approved. (Ex. 298).

21. The evidence is inconclusive as to how much work Thomas Lennon had done on the mechanical portion of the new patent application as of May 31, 1962. Louis Keller had no specific recollection [\*61] of what was in the file Clifford observed. (Tr. Trans. Vol. IV p. 106). Clifford testified that he recalled seeing drawings of the Bobcat, but believed that most of them related to design, although there might have been some work on the mechanical patent. (Depos. of Clifford Melroe, 10-5-79 p. 34). Thomas Lennon had little or no recollection of the events surrounding this time, other than he did recall that his authority to file a mechanical patent application was taken from him. He could not recall whether a file had been opened or what documentation he had for a mechanical application. The only file from the Williamson law firm received in evidence which related to the 117 patent was opened on October 25, 1962. There is no indication that Mr. Lennon forwarded anything to Clifford other than the claims of the 503 patent. The only item or document found in the files of the Williamson firm which would be related to the mechanical portion of the new loader was a photograph of the clutch mechanism, (Ex. 655B), which was not forwarded to Clifford.

22. On June 1, 1962, Thomas Lennon sent copies of the design patent application for the new loader to Melroe Manufacturing for execution [\*62] of signatures. Also sent was an assignment of the patent ownership to Melroe Manufacturing. (Ex. 661). Both the application and assignment were executed by Louis and Cyril Keller and Clifford Melroe on June 21, 1962. (Exs. 282, 283). The documents were sent by Lennon to the Commissioner of Patents on July 24, 1962. (Ex. 289). That patent was filed on July 25, 1962 and subsequently issued as D 195, 254 on May 21, 1963. (Ex. 644).

23. John R. Swindler of the law firm Irons, Birch,

Swindler & McKie in Washington, D.C., had been Melroe Manufacturing's patent attorney since the mid 1950s. (Depos. of John Swindler, 2-6-80, p. 5).

24. On June 13, 1962, Clifford Melroe first contacted Mr. Swindler by telephone concerning patent protection for the new loader. It was also discussed that Warner-Swazey Company had contacted Melroe Manufacturing about buying up its rights to the loader. Swindler was told that the loader was first introduced around the first part of 1962. He requested that Clifford send him a copy of the 503 patent application along with drawings and photographs of the new Bobcat loader so as to determine whether the new loader was covered. Exhibit 67 is Swindler's [\*63] handwritten notes of the conversation. Exhibit 66 is a typewritten memorandum dated June 13, purportedly regarding a phone conversation on June 16, 1962. Swindler, at his deposition, thought that the two memos related to two phone conversations, one on the 13th and a second on the 16th. The court finds that both memos relate to the call on the 13th. In the call noted on Exhibit 66, Swindler requested documents from Clifford to be mailed that same day. On June 13, Clifford sent to Swindler, pursuant to their phone conversation on that day, all the information he had received from the Williamson firm, along with pictures and blueprints of the parts for the Bobcat. (Ex. 68).

25. On June 15, 1962, Mr. Swindler called Clifford Melroe and requested authorization to inspect the 503 patent application at the Patent Office. Exhibit 70 is Swindler's notes to the conversation. That same day, Louis Keller sent the authorization. (Ex. 71).

26. On June 27 and 28, 1962, Clifford Melroe went to Washington, D.C. and met with John Swindler concerning further patent protection for the new Bobcat loader. Clifford explained the mechanical inventions to Swindler and Swindler sketched some [\*64] rough drawings. (Ex. 72). Clifford also informed Swindler that he and Louis Keller were to be the named inventors. There was also a discussion about an assignment of the invention to Melroe Manufacturing.

27. It was Swindler's customary procedure at that time to explain to a patent applicant the law of public use and offer for sale and that an offer for sale could create the problem even if no actual sale or shipment took place. (Depos. of John Swindler, 2-6-80, p. 174. Clifford Melroe had had experience in the past with obtaining patent protection on Melroe products. He was aware of the "public use" and "on sale" provisions of 35 U.S.C. § 102(b) which bar patent applications not filed before the critical date. (Depos. of Clifford Melroe, 10-5-79, p. 60).

28. Following his normal procedure, Swindler inquired of Clifford as to when the subject matter of the Bobcat invention had been first offered for sale. (Depos. of Clifford Melroe, 10-5-79, p. 63). Clifford responded that the first machine did not go out until January 4 or 5, 1962. He reported no other sale activity. Swindler felt he had no reason to question the dates Clifford had given him in response to his [\*65] questions on the subject, and thus relied on this information for determining the critical date. (Depos. of John Swindler, 2-6-80 pp. 126-130).

29. This court has previously found that loaders embodying the elements of the 117 patent was offered for sale out of Melroe's Minneapolis sales office to Midland Cooperative around September 29, 1961 and to the Farmers Union Central Exchange around the first week of October, 1961. (Memorandum of Decision and Order, September 23, 1976, page 58).

30. The M-440 Bobcat loader was the first production model to incorporate the elements of the invention disclosed in the 117 patent. The first commercial production model of the M-440 was delivered to the Farmers Union Central Exchange on January 4, 1962. (Memorandum of Decision and Order, September 23, 1976, finding 91, p. 44).

31. The loader which eventually became the one disclosed in the 117 patent began as a series of preproduction loaders built in the spring and summer of 1961. The 4th prototype was the first preproduction loader to incorporate the elements of the invention disclosed in the 117 patent which eventually were put into the M-440 production model. This prototype loader [\*66] was first constructed near the end of the third quarter of 1961. (Memorandum of Decision and Order, September 23, 1976, finding 49, pp. 36-37).

32. The court has found that an M-440 was demonstrated to Midland Cooperative and Farmers Union Central Exchange in the late summer or early fall of 1961. (Prior order, findings 92 and 102, pp. 44 and 45).

33. At the time of the June meeting with Swindler, Clifford Melroe knew of the prototypes which had been developed, since as co-inventor of the 117 patent he was personally involved in their development. (Depos. of Clifford Melroe, 3-11-80 p. 32).

34. He was also aware of demonstrations of the loaders in the summer or fall of 1961. He knew the new machine was being shown to customers who had in the past purchased some of the older model machines and who wanted a new improved machine because the older model was not satisfactory. The customers were shown what had been done to see if it was an acceptable

machine to them. (Depos. of Clifford Melroe, 3-11-80, p. 35).

35. It was Clifford Melroe's opinion these demonstrations did not constitute offering the machine for sale. He did not inform John Swindler of these demonstrations. [\*67] (Depos. of Clifford Melroe, 3-11-80, p. 48).

36. Exhibits 741-755 are sales documents which indicate that a number of M-440 loaders were offered for sale to Midland Cooperative and Farmers Union Central Exchange as early as September 29, 1961. These records were maintained in the ordinary course of Melroe's business at its Minneapolis sales office. The court relied on these documents as circumstantial evidence of an offer for sale in its determination that the 117 patent was invalid.

37. Clifford Melroe had not examined the company's sales records, and was not aware of the documents when he informed Swindler that the machine first came out in January, 1962. (Depos. of Clifford Melroe, 3-11-80, p. 35).

38. When Clifford Melroe was seeking patent protection on the loader, he was acting in furtherance and in the course of his employment as president of Melroe Manufacturing Company.

39. On July 2, 1962, John Swindler wrote to Clifford Melroe, advising him that in consideration of the complete redesign of the loader construction and the important features included therein, a patent application for the new loader should be filed. Swindler stated that as discussed at [\*68] the June meeting, his firm was proceeding with obtaining patent application drawings and they would prepare and submit to Clifford a patent application for the new loader. He also confirmed that the inventors would be identified as Clifford E. Melroe and Louis J. Keller and that an assignment would be forwarded with the application to assign it to Melroe Manufacturing. (Ex. 73).

40. At the June meeting, Clifford Melroe and John Swindler had discussed drafting an agreement to be signed by all the Melroe Company employees which would obligate them to assign to the company and inventions they developed during their employment. On July 5, 1962, Mr. Swindler sent Clifford copies of the agreement (Ex. 58). Melroe Manufacturing never utilized the agreements.

41. John Swindler corresponded regularly with the Melroe brothers on the progress of the patent application. On August 30, 1962, he sent copies of four sheets of pencil drawings reflecting the new patent. (Ex. 715). On October 11, 1962, Mr. Swindler sent the completed

patent application to Clifford Melroe for signatures. He also sent an assignment of the patent, assigning it to the Melroe Company, to be signed by Louis [\*69] and Clifford at the same time they were to sign the application. (Ex. 84).

42. Louis Keller and Clifford Melroe signed the patent application on October 19, 1962 and returned it to Swindler on October 23, 1962. Swindler filed it with informal pencil drawings, as was his customary practice, with the Patent Office on October 23, 1962. He later filed formal inked drawings. (Ex. 86).

43. When Swindler filed the patent in October, 1962, he believed he was working against a critical bar date of around the first of January, 1963, based upon what Clifford had told him. (Depos. of John Swindler, 2-6-80, p. 130). An experienced patent attorney could have prepared and filed the 117 patent application within three or four weeks after receiving authorization to do so and having the necessary information. (Testimony of Richard O. Bartz, Tr. Trans. Vol. IV, p. 139-40).

44. On November 5, 1962, Mr. Swindler wrote to Clifford Melroe advising him that he had not yet received an executed copy of the assignment. (Ex. 85).

45. The assignment was never executed. Clifford Melroe could recall discussing it with Louis Keller, but could not recall why it was never signed. (Depos. of [\*70] Clifford Melroe, 3-11-80, pp. 29-31). Louis could not recall Clifford ever asking him to sign an assignment. (Tr. Trans. Vol. IV, p. 69). Clifford did not assign his rights in the 117 patent to the Melroe Company until April 7, 1966, following a specific request by Swindler to do so in order to simplify the naming of parties in the Universal suit. (Ex. 108 and unmarked letter of April 5, 1966, contained in Swindler's patent file, Ex. 65).

46. The patent on the Bobcat loader on the application filed October 23, 1962, was issued as patent 3,231,117 by the Patent Office on January 25, 1966.

47. On October 1, 1963, Louis and Cyril Keller entered into an agreement with the Melroe Manufacturing Company which superceded their 1959 agreement. Pursuant to the agreement, the Kellers granted to Melroe the exclusive right and license to make or sell machines embodying the inventions disclosed and claimed in a number of patents, including the application for the 117 patent. In return, Melroe agreed to pay the Kellers a predetermined royalty for each such device sold. (Ex. 553).

48. The Melroe Manufacturing Company paid the Kellers royalties under the 1963 agreement until August, [\*71] 1969.



49. Prior to February, 1969, the stockholders group of Melroe Manufacturing were concerned with the rapid growth of the company and with securing additional funds for future growth. The group contemplated a public issue and the question arose whether it would be more advantageous to go a public issue route or sell the company.

50. In February, 1969, Roger Melroe had a casual contact with a representative of Clark Equipment Company in Chicago where there was an initial conversation concerning Melroe Manufacturing's financial situation.

51. On March 31, 1969, the Melroe Manufacturing Company, a North Dakota corporation, merged with the Melroe Company, a Delaware corporation. Pursuant to the articles and agreement of merger, the surviving Delaware corporation assumed all the debts, liabilities and obligations of the old corporation. (Ex. 717, tab 24).

52. Communication between Clark and Melroe continued over the following months leading to negotiations concerning Clark's acquisition of Melroe's assets. Exhibit 717 is a compilation of documents prepared by Clark, covering the transactions leading up to its acquisition of Melroe.

53. On June 30, 1969, Clark [\*72] announced the forthcoming acquisition of the Melroe Company.

54. On August 11, 1969, Clark and Melroe entered into a written Agreement and Plan of Reorganization in which Melroe, in exchange solely for voting common stock of Clark, agreed to convey to Clark on the closing date of August 15, 1969, all of Melroe's assets except as specifically excluded in the Agreement and Clark agreed to assume all the liabilities, obligations and covenants of Melroe, except as specifically excluded in the Agreement. (Ex. 207, contained in Ex. 717, tab 17).

55. In § 1.4 of the Agreement, Melroe represented and warranted that the balance sheets reflecting Melroe's financial status, previously given to Clark, reflected all known claims against, and all debts and known liabilities of Melroe, fixed and contingent. Melroe also represented that to its best knowledge, no fact or condition existed or was contemplated which might cause a material adverse change in the future.

56. In § 1.8 of the Agreement, Melroe represented and warranted that Schedule C contained a listing of patents owned by or licensed by Melroe and that to the best knowledge of Melroe, there were no claims or demands of any [\*73] other person pertaining thereto. Kellers' interest in the 117 was shown as an interest licensed to Melroe.

57. In § 1.21 of the Agreement, Melroe represented and warranted that neither the financial statements referred to in § 1.4 nor the Agreement contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained therein not misleading.

58. Melroe also warranted and represented in § 1.14 of the Agreement that other than that listed in Schedule E, to the best knowledge of Melroe, it was not threatened with any legal action or proceeding.

59. Section 3.1 of the Agreement reads in part as follows:

§ 3.1. Conveyances and Expenses . Melroe agrees to convey, assign and transfer to Clark and Clark agrees to acquire from Melroe on the Closing Date all of the properties and assets of Melroe of every kind and description (except those assets to be retained by Melroe pursuant to the next paragraph of this § 3.1 and the records to be retained by Melroe referred to in § 4.1, including but not limited to, cash, moneys on deposit and securities, all the goodwill of the business carried on by Melroe and [\*74] all of its customers, lists, credit and sales records, and all other interests in which it has a conveyable or assignable interest on the Closing Date, in consideration of (1) the delivery of 475,000 shares of Common Stock of Clark on the Closing Date, and (2) the assumption by Clark of all liabilities, obligations and covenants of Melroe on the Closing Date except (i) any liabilities arising out of the breach of any representation or warranty of Melroe contained herein or the failure of Melroe to perform any of its agreements contained herein, (ii) any liabilities and disclosed due to any misrepresentation by Melroe herein and (iii) any liabilities referred to in the next paragraph of this § 3.1.

The next paragraph provided that after the closing date, Melroe would retain a sum not exceeding \$50,000.00 in cash to be used to pay the incidental expenses connected with Melroe's acquisition by Clark.

60. Under the terms of the Agreement, on the closing date Melroe would change its corporate name to a name not including the name "Melroe," and would transfer to Clark the right to the use of its corporate name.

61. Furthermore, pursuant to the Agreement, as soon as practicable [\*75] after the closing date, Melroe would effect its dissolution and complete its liquidation by distributing to its stockholders the 475,000 shares of common stock of Clark delivered to Melroe.

62. The Agreement by its terms is to be construed in accordance with the laws of the State of North Dakota.

63. In Schedule C of the Agreement, Melroe



disclosed the pending lawsuit asserted against it by Owatanna concerning the 503, 117 and 254 patents. Also disclosed was the prior litigation initiated by Melroe against Universal which in 1967 resulted in a consent judgment and Universal's taking a license on the three patents.

64. There was no disclosure of any possible assertion of tort liability against Melroe for late filing of the 117 patent application. Melroe had no knowledge of such a claim and had no reason to know that such a claim would be asserted.

65. On August 15, 1969, the closing date, the Clark shares were delivered to Melroe. Shortly thereafter the shares were reissued to the former Melroe stockholders.

66. Following the acquisition, the Melroe Company changed its name to Gwinner Holding Company. Gwinner Holding Company existed as a corporate shell or dormant [\*76] corporation with no employees, no business function, and holding as assets only the \$50,000 provided for in the agreement for windup expenses. In August, 1973, the authority of Gwinner Holding Company to transact business in North Dakota was revoked by the Secretary of State for failure to file a required annual report. (Ex. 733).

67. The physical plant at Gwinner became known as the Melroe Division of Clark Equipment. It continued to manufacture and sell the same line of products as it had as Melroe Company.

68. With one or two exceptions, the corporate officers of Melroe Company became officers of the Melroe Division of Clark Equipment.

69. Most of the former Melroe employees became employees of the Melroe Division and they were allowed to continue their pension fund.

70. For accounting purposes, the transaction was treated as a pooling of interests. (Ex. 717, tab 54).

71. Clark continued to pay the Kellers royalties under the 1963 Melroe agreement. (Testimony of Kenneth Witt, Tr. Trans. Vol. VIII p. 34).

72. In May, 1971, the Kellers and Clark Equipment entered into a license agreement superceding the 1963 agreement and which recognized the Kellers [\*77] as joint owners of the 503, 117 and 254 patents. Pursuant to that agreement, the Kellers granted to Clark an exclusive right and license to make, use and sell, with the right to grant sublicenses to third persons to make, use and sell, vehicles embodying the inventions disclosed and claimed in the 503, 117 or 254 patents. Clark agreed to pay the Kellers a royalty of \$15.00 for each Licensed

Device made and sold by Clark in a country where there is a licensed patent and \$10.00 for each Licensed Device made and sold by a sublicensee in a country where there is a licensed patent. License Device was defined as vehicles embodying the inventions or any thereof disclosed and claimed in the licensed patents. (Ex. 551).

73. Royalties were paid to the Kellers by Clark under the new agreement until approximately the second quarter of 1972. Thereafter royalties were paid into an escrow account for a period of time and then discontinued altogether. On October 10, 1972, Clark filed this declaratory judgment action against the Kellers.

74. Since January, 1972, Clark has manufactured or sold in the United States the following models of hydrostatic skid steer loaders: Models 174, 520, [\*78] 530, 533, 620, 630, 631, 632, 700, 720, 721, 722, 730, 731, 732, 825, 833, 970, 974, 975, 1074, 1075 and 1080. All these models embody the invention disclosed in claim 9 of the 117 patent. (Tr. Trans. Vol. III p. 133), reading from answers to Keller's Interrogatories, Set 8; Vol. VI pp. 132-144, testimony of John Barnes).

75. Since January, 1972, Clark has manufactured or sold in the United States the following models of clutch driven skid steer loaders; Models 310, 313, 371, 600, 610, 611. All these models embody the invention disclosed in claims 1-6, 15, 18 as well as claim 9 of the 117 patent.

76. Exhibits 500-518 and 522-550 are parts manuals for those Clark skid steer loaders.

77. Exhibit 582 is a written transcript of a tape used by Clark in training distributors and dealers about competitors' skid steer loaders. Exhibits 584 through 590 are copies of "Confidentially Speaking," and "Kopycat Konfessions," publications put out by Clark which contain the specifications and information on competitors' machines, comparing them to the Bobcat.

78. Claim 9 of the 117 patent reads as follows:

A tractor vehicle for use in handling material comprising an elongated [\*79] body having an engine space at the rear end thereof and a forward space for the vehicle operator's legs at the front end thereof with a seat for the operator mounted on said body intermediate and at an elevation above said engine space and said forward space, an engine mounted in said engine space, spaced wheels rotatably mounted on opposite sides of the body, means for connecting said engine to selectively drive said wheels in forward or reverse directions to propel and maneuver said vehicle, a stanchion projecting upwardly from adjacent the rear end of said body on each side of said engine space and providing at the upper end

thereof a pivotal mounting, a lifting arm connected to said pivotal mounting of each stanchion with each arm extending forwardly along a side of said body past said operator's seat and downwardly adjacent the front end of said body, a material handling member mounted on the forward ends of said arms, and means connected to each arm to make raise arms and the material handling member mounted thereon in connection with use of the vehicle.

79. Several of Clark's competitors manufacture or sell skid steer loaders which incorporate all the elements recited in [\*80] Claim 9 of the 117 patent, which loaders would have infringed upon the patent if the patent application had been timely filed. Some of the companies which sell skid steer loaders are provided the loaders by other companies.

80. Claim 9 of the 117 patent, if the patent application had been timely filed, would be infringed upon by the following skid steer loaders manufactured or sold presently or in the past by companies other than Clark:

a. The Case models 1816 (Ex. 557), 1830 (Ex. 558), 1845 (Ex. 588A), and any other similar models of loaders manufactured or sold by J.I. Case which have component parts arranged so as to literally read upon claim 9 of the 117 patent.

b. The Owatanna models 310 (Ex. 572), 440 (Ex. 573), 1700 (Ex. 574) and any other similar models manufactured or sold by Owatanna Manufacturing which have component parts arranged so as to literally read upon claim 9 of the 117 patent. This also includes comparable machines manufactured by Owatanna for John Deere.

c. The Gehl models 3000 (Ex. 562), 4500 (Ex. 563) and any other similar models of loader manufactured or sold by the Gehl Company which have component parts arranged so as to literally read upon [\*81] claim 9 of the 117 patent.

d. The Rounder model L-600 (Ex. 576), L-700 (Ex. 577), L-1000 (Ex. 575), and any other similar models of loader manufactured or sold by Oakes Manufacturing, Inc. which have component parts arranged so as to literally read upon claim 9 of the 117 patent. This includes comparable models manufactured by Oakes Manufacturing for the Gehl Company.

e. The various models of the Little Eric and Big Eric (Exs. 588B and 560) manufactured and sold by Erickson Corporation. This includes comparable machines manufactured by Erickson for Ford. Illustrative of such a Ford machine is the CL-40 (Ex. 561).

f. The Mitey-Mac models 8C, 9C, 12C, 14C and 20C

manufactured or sold by Hydra Mac. The model 12C is illustrated in Ex. 568. This would include comparable models manufactured by Hydra Mac for International Harvester and Gehl. Not included is the model 6C, a loader with one lift arm manufactured by Hydra Mac.

g. The Thomas 700 (Ex. 580), 173 (Ex. 579), and any other similar models of loader manufactured or sold by Thomas Equipment which have component parts arranged so as to literally read upon claim 9 of the 117 patent.

81. Evidence offered on other [\*82] competitive loaders, such as the Lawman, Davis, New Holland, and Massey Ferguson, was insufficient for the court to make a determination whether such loaders would infringe on the 117 patent, if the patent was valid.

82. Had the 117 patent application been timely filed, the patent would expire on January 25, 1983.

#### Conclusions of Law

The court concludes the Kellers have established by a preponderance of the evidence that Clifford Melroe in the course of his employment as President of Melroe Manufacturing and on behalf of Melroe Manufacturing, took upon himself to file the 117 patent and thereby assumed a duty toward Louis Keller to exercise reasonable care in doing so; that by failing to inform Melroe's patent attorney of demonstrations of the loader of which he was aware, and sales activities relating to the loader which he should have discovered and which he could have discovered with reasonable inquiry, he failed to exercise reasonable care required by the circumstances, causing the patent application to be filed late, resulting in damages sustained by the Kellers.

The court further concludes the Kellers have established by a preponderance of the evidence that when Clark [\*83] acquired the assets of Melroe it contractually assumed Melroe's liability to the Kellers, and further, notwithstanding the agreement, the transaction in which Clark acquired the assets constituted a de facto merger by which Clark assumed the obligation as a matter of law.

#### Discussion of the Facts and Application of the Law

The Kellers claim that Melroe Company is liable for the late filing of the 117 patent because it was either negligent in the prosecution of the application, or breached a contract with Louis Keller with respect to the prosecution of the patent. Additionally it is alleged that Clark is responsible for the liability which the Kellers claim against the Melroe Company because Clark assumed the liability contractually and also as a matter of law is liable as the successor in interest by reason of a de facto merger.

Clark's defense is that Melroe Company was not negligent and did not breach any contract. Clark further asserts that if Melroe Company is found to be liable to the Kellers, Clark did not assume such liabilities either contractually or by law when it acquired the Melroe Company. It also asserts its 1971 licensing agreement with Kellers bars any claim [\*84] against Clark and it reasserts its statute of limitations defense.

#### A. Statute of Limitations Defense

In reasserting its statute of limitations defense, Clark requests this court to reconsider its order of August 16, 1979 in light of evidence adduced at trial. This court held in its August order that the Kellers' cause of action accrued no earlier than 1972 when Clark stopped paying royalties. Before that time the Kellers had suffered no damages and absent damages, no cause of action existed. *Keller v. Clark Equipment Co.*, 474 F.Supp. 966, 969, 206 USPQ 478 (D.N.D. 1979).

Clark now argues that once the omission occurred with respect to the timely filing of the 117 patent application, Louis Keller was damaged in losing his right to enforce his patent rights as against third parties. However, the two companies that were infringing in the patent prior to 1972, J.I. Case and Owatanna, in the midst of litigation, agreed to the validity of the patent and took license agreements. Therefore, the Kellers suffered no such damages until 1972.

Clark also apparently argues that since the Kellers knew that the validity of the 117 patent was being questioned as early as 1966 in the [\*85] Owatanna and Universal law suits, they should have asserted their late filing claim at that time. This reasoning overlooks the fact that neither of these cases resulted in a judgment declaring the patent to be invalid. Rather, Clark took over the defense of both of these cases when it acquired Melroe and the cases were settled in favor of the Kellers. Clark's attorney testified that he believed at that time that the patent was valid.

The court reaffirms its prior holding that no cause of action for late filing accrued before 1972, and thus the claim is not barred by the statute of limitations.

#### B. The Clark-Keller Agreement as a Bar to the Action

Clark claims that the 1971 licensing agreement between it and the Kellers bars any action for the late filing. It relies on the provision that obligates Clark to pay royalties only on valid patents. It relies on the integration clause of the agreement which bars modification other than by written instrument. It relies on paragraph 15, which provides:

15. LICENSEE shall not during or after termination of this agreement be estopped to contest the validity or

scope of any patent coming under the terms hereof, but shall stand [\*86] in the position of one who has never entered into an agreement with respect to such patents.

Its arguments are misplaced. If Clark is liable to Keller in damages for the late filing, the liability will arise from tort or a separate contract and not from the 1971 Clark-Keller licensing agreement. That agreement is not helpful except as an aid in the measurement of damages. There is nothing in the licensing agreement which will prevent the Kellers from pursuing their late filing claim on its merits.

#### C. Melroe's Liability for Late Filing of the Patent

##### 1. Negligence .

In Count IV of their amended complaint, the Kellers allege that Melroe assumed control of the preparation, filing and prosecution of the 117 patent application, after Louis Keller had initiated consideration and evaluation of the patent by his patent attorneys, thereby imposing a duty upon Melroe to diligently prepare and timely file the application. It is further alleged that Melroe breached that duty by negligently failing to file the application on time.

Under applicable North Dakota law, actionable negligence is the existence of a duty or obligation on the part of one to protect another from injury, [\*87] failure to perform or discharge the duty, and resulting injury to such other proximately caused by the breach of duty. *Brauer v. James J. Igoe & Sons Construction*, 186 N.W.2d 459, 468 (N.D. 1971); *McDermott v. Sway*, 78 N.D. 51, 50 N.W.2d 235, 239 (1951). There can be no actionable negligence where there is no duty. *Mikkelsen v. Risovi*, 141 N.W.2d 150, 152 (N.D. 1966); *Larson v. Meyer*, 135 N.W.2d 145, 154 (N.D. 1965); *Belt v. City of Grand Forks*, 68 N.W.2d 114, 119 (1955).

Clark contends that Melroe Manufacturing owed Louis Keller no duty to file the 117 patent application. For this contention it places principal reliance on *N.D. Cent. Code § 34-03-11* which provides as follows:

Everything which an employee acquires by virtue of his employment, whether acquired lawfully or unlawfully or during or after the expiration of the term of his employment, except any compensation which is due him from his employer, belongs to the employer. Clark argues that since Louis Keller and Clifford Melroe were full time employees of Melroe working in the area of loader development and used Melroe's materials, equipment and facilities at the time they developed the loader, the invention belonged [\*88] to Melroe so that Louis Keller never had any interest in the patent application which Clifford would have a duty to protect.

There are no cases construing the statute. There is, however, a general body of common law which governs the rights between an employer and employee as it relates to inventions and which may aid the court in discovering what the law is in North Dakota. As a general rule the law does not regard the ordinary contract of employment as including a right on the part of the employer to the products of the inventive genius of the employee. Rather, it depends upon the terms of the particular contract of employment. Annot., 16 A.L.R. 1177 (1922).

Where an employee makes and reduces to practice an invention on his employer's time, using his employer's tools and the services of other employees, the employer is the recipient of an implied, nonexclusive royalty free license, or "shop right." See *Hobbs v. United States*, 376 F.2d 488, 494, 153 USPQ 378, (5th Cir. 1967); *A & C Engineering Company v. Atherholt*, 355 Mich. 677, 95 N.W.2d 871, 875, 121 USPQ 235 (1959); *Barlow & Seeling Mfg. Co. v. Patch*, 232 Wis. 220, 286 N.W. 577, 42 USPQ 211 (1939); Annot., 61 A.L.R.2d [\*89] 356 (1958).

This is an application of equitable principles. Since the servant uses his master's time, facilities and materials to attain a concrete result, the latter is in equity entitled to use that which embodies his own property and to duplicate is as often as he may find occasion to employ similar appliances in his business. But the employer in such a case has no equity to demand a conveyance of the invention, which is the original conception of the employee alone, in which the employer had no part. This remains the property of him who conceived it, together with the right conferred by the patent, to exclude all others than the employer from the accruing benefits.

*U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178, 188-89, 17 USPQ 154, 158-159 (1933).

Where, however, the person is employed for the express purpose of using his inventive faculty for his employer to make an invention, and he succeeds in accomplishing the assigned task during the period of employment, the employer is the equitable owner of the invention and the employee is obligated, by way of implied contract, to assign to the employer any patent that may be obtained on the invention. This is because the employee [\*90] has only produced that which he was employed to invent. *Melin v. United States*, 478 F.2d 1210, 1213, 178 USPQ 364 (Ct.Cl. 1973). See *Standard Paris Co. v. Peck*, 264 U.S. 52 (1924); *Barlow & Seelig Mfg. Co. v. Patch*, supra; Annot., 153 A.L.R. 983 (1944); Annot., 85 A.L.R. 1512 (1933); Annot., 44 A.L.R. 593 (1926); Annot., 32 A.L.R. 1039 (1924). See generally 53 Am.Jr.2d Master and Servant §§ 111-120 (1970).

Thus, it is clear that the respective rights and

obligations of employer and employee relating to the employee's invention, arise from the contract of employment. *Bandag, Incorporated v. Morenings*, 259 Iowa 998, 146 N.W.2d 916, 920, 152 USPQ 353 (1966).

Although there was no written employment contract, there is evidence that Louis Keller was hired for his inventive abilities and that absent other circumstances there would have been an implied contractual obligation for him to assign to Melroe his ownership interest in the patent.

Clark argues that there is an inference that Clifford Melroe Presented an assignment of the 117 patent to Louis Keller and that he refused to sign it, demonstrating an intent on Clifford's part to exercise for Melroe full ownership over the patent. [\*91] This inference is said to arise from the fact that John Swindler sent with the unexecuted patent application, an assignment. But there is no evidence to support any inference that Louis was asked to and refused to execute the assignment. Louis recalled no such incident. And the person who reasonably would be expected to have recalled it, Clifford Melroe, did not know why the assignment was not signed.

Clark places importance on the fact that John Swindler prepared a contract to be signed by all Melroe employees by which they would agree to assign all future patent rights arising from their employment. Any particular relevance this may have toward the issue of ownership of the 117 patent is outweighed by the fact that the contract was never signed. Thus, it supports no inference of any intent on the part of Melroe to claim sole ownership in inventions developed by employees, but instead the fact that it was recommended by legal counsel and not done rebuts the inference.

The fact that the owners of the 254 patent assigned their rights to Melroe could, under ordinary circumstances, be evidence of an agreement to assign all inventions. See e.g., *Magnetic Mfg. Co. v. Pings* [\*92] *Magnetic Separator Co.*, 16 F.2d 739, 741 (7th Cir. 1926). This would perhaps be applicable had Melroe demanded an assignment of the 117 patent and Louis Keller refused. But that is not the case here. Furthermore, Clifford Melroe did not assign his own interest in the patent until requested by Swindler to do so in connection with the Universal law suit in 1966. It cannot be inferred from this action that Melroe Manufacturing intended to claim sole ownership over the 117 patent back in 1962.

In addition, to accept Clark's contention that Louis Keller had no interest in the 117 invention when he sought patent protection on it, would require the court to overlook the fact that in October, 1963, Melroe agreed to pay royalties to the Kellers on the 117 patent application

in exchange for an exclusive license. This is no more than a year after the time Clark would have the court infer that Louis refused to execute the assignment. It is reasonable to infer from Melroe's agreement to pay royalties that it recognized Louis Keller's ownership interest in the patent as a co-inventor, and never claimed sole ownership. Furthermore, the 1971 agreement between Clark and the Kellers expressly [\*93] recognizes Louis Keller's co-ownership in the 117 patent. Notwithstanding any implied right an employer may have to an employee's invention, the parties may contract as they wish and an employer may contract away an implied right which would come into existence if the parties had remained silent. *Aero Bolt & Screw Company of California v. Iaia*, 180 Cal.App.2d 728, 5 Cal.Rptr. 53, 60, 125 USPQ 545 (Dist.Ct.App. 1960). Thus, when an owner of a patent and his employer have contracted on a royalty basis, the question of the employer's implied rights to the patent is excluded. *Id.* See *Brown v. L.V. Marks & Sons Co.*, 64 F.Supp. 352, 356, 68 USPQ 365, 367-368 (E.D.Ky. 1946).

Pursuant to the royalty license, Melroe first and Clark later paid the Kellers royalties on the 117 patent for some nine years. This is quite inconsistent with Clark's contention that the Kellers never had an interest in the 117 patent. The court concludes that Louis Keller, when attempting to seek patent protection on the invention which resulted in the 117 patent, possessed a protectable interest in it.

The interest of Kellers, standing alone, does not establish a duty upon Clifford Melroe to file the 117 [\*94] patent application. When an invention is made by two or more persons jointly, they must apply for the patent jointly and each sign the application. 35 U.S.C. § 116. Notwithstanding Louis Keller's interest in the patent as a co-inventor, the law would ordinarily impose no duty upon Clifford Melroe, the other co-inventor to file the application to protect that interest. n1

n1 The Kellers in their brief argue that the 1959 agreement between Melroe and the Kellers, see factual finding 3, *supra*, created a contractual obligation on the part of Melroe to file the patent. The words of the contract do not reasonably lend themselves to such an interpretation. The agreement merely gave Melroe an option to pursue patent protection on the loader which was the subject of that agreement.

However, one may assume a duty, where a duty would otherwise not lie, by voluntarily performing an affirmative act. *Clairmont v. State Bank of Burleigh Cty. Trust*, 295 N.W.2d 154, 158 (N.D. 1980); *Pirocchi*

*v. Liberty Mutual Insurance Co.*, 365 F.Supp. 277, 281 (E.D.Pa. 1973). See generally, Prosser, Law of Torts § 56 (4th Ed. 1971). "One who assumes a duty, whether gratuitously or for consideration, [\*95] must exercise reasonable care in the performance of that duty; his failure to exercise reasonable care subjects him to liability for damage proximately caused thereby." *Weiss v. Bellamy*, 278 N.W.2d 119, 121-22 (N.D. 1979).

Louis Keller, as a co-inventor, had taken steps to make application for the 117 patent. Clifford Melroe, on behalf of Melroe Manufacturing represented to Louis that Melroe would use its own attorney to proceed on the patent application. Clifford Melroe then took affirmative steps to secure patent protection. Louis Keller relied on Clifford's efforts and not daring to interfere with those efforts did not take any further action on the patent application. Under the doctrine stated in *Chairmont v. State Bank of Burleigh Cty. Trust*, *supra* and *Weiss v. Bellamy*, *supra*, this set of circumstances created a duty upon Clifford Melroe to exercise reasonable care in filing the application so as to protect Louis Keller's interests in the invention.

The term "negligence" is relative. Its application depends upon the situation of the parties and the degree of care which circumstances reasonably impose. *Zerr v. Sommer*, 179 N.W.2d 330, 333 (N.D. 1970). It is the "failure [\*96] of a person to observe, for the protection of another person's interests, that degree of care, protection, and vigilance justly demanded by the circumstances. \* \* \* Id. Consideration is given to the person's intelligence and experience in determining whether reasonable care has been exercised. *Sheets v. Pendergast*, 106 N.W.2d 1, 4 (N.D. 1960).

Section 102(b) of Title 35, U.S.C., provides that a person shall not be entitled to a patent if the invention was in the public use or on sale in this country more than one year prior to the date of the application for the patent. Failure to abide by the § 102(b) requirement will result in the destruction of the inventor's rights in what would otherwise be a valuable patent.

Clifford Melroe knew from his prior experience with patent applications about the § 102(b) requirements and that failing to meet them would invalidate the patent. Furthermore, when he met with John Swindler, the importance of the statutory bar date was explained to him and that an offer for sale, as distinguished from an actual delivery, would be sufficient to start the running of the one year period.

The court concludes that reasonable care in filing a patent [\*97] application includes exercising reasonable care in complying with the provisions of § 102(b). For

a person with the knowledge and experience which Clifford Melroe possessed, this would include exercising reasonable precaution in gathering the necessary information and fully disclosing this information to the patent attorney.

At the June 23 meeting John Swindler asked Clifford Melroe when the first offer for sale took place. Clifford told him the first such activity was on the 4th or 5th of January, 1962. Swindler relied on that information for determining the critical date. Clifford knew, however, that the machine had been demonstrated to previous customers in the fall of 1961. He did not consider such demonstrations to constitute offers for sale and never mentioned the demonstrations to Swindler. Exercising reasonable care, however, in matters of this importance would require that Clifford Melroe disclose this knowledge to his patent attorney who could assess the significance of the demonstrations.

Exhibits 741-755 are sales documents which would put one on notice that M-440 loaders were offered for sale to Midland Cooperative as early as September 29, 1961. These were [\*98] records maintained in the ordinary course of Melroe's business at its sales office in Minneapolis. Clifford Melroe as president of the company and as one of the developers of the loader knew that the M-440 was a machine incorporating all the essential elements of the invention on which Keller was seeking patent protection. He also knew that such a machine was in existence at the time the offers were made. Clifford never saw these documents and thus never disclosed the information to Swindler. As president of Melroe, however, he had access to the sales records maintained in the Minneapolis sales office. In light of the extreme importance of filing the application within the statutory time, and of his having taken from Keller the right to file the patent application, reasonable care would require that Clifford Melroe make such inquiry as would be necessary to inform himself and Swindler of the company's sales activities. A simple inquiry at the sales office would have placed a reasonable person in Melroe's position and responsibility on notice of the sales activities. Failure to make that inquiry was negligence. Since Clifford Melroe was acting in furtherance of, and in the scope [\*99] of his employment with Melroe Manufacturing, his negligence is attributable to his employer.

This court has already decided that but for the late filing, the 117 patent would be valid. In light of Richard O. Bartz's testimony, (Tr.Trans.Vol.IV, p. 155), as to the time it would take an experienced patent attorney to prepare and file the patent, had Clifford Melroe exercised reasonable care and examined the documents available

to him and informed Swindler of the matter when they met in June, 1963, Swindler would have had sufficient time to file the patent application before the statutory bar date of September 29, 1963. Clearly, Clifford Melroe's negligence was the proximate cause of economic injury to the Kellers resulting from the 117 patent's invalidity.

## 2. Breach of Contract

Count VI of the Keller's amended complaint alleges:

During May, 1962, and not later than the early part of June, 1962, Melroe, through its President, Clifford Melroe, entered into an agreement with Louis Keller whereby Melroe, Clark's predecessor in interest, would prepare and file, through its attorneys, a U.S. patent application based upon the 117 patent subject matter. In accordance with the [\*100] agreement, Louis Keller agreed to refrain from exercising his legal right to file a patent application on the same subject matter; and Louis Keller has so refrained, in reliance on the agreement, all to his detriment.

It further alleges that Melroe failed to discharge its obligations under the agreement.

The Kellers in their post trial briefs focused but little attention upon this claim for relief. The theory appears to be that when Clifford Melroe undertook to file the 117 patent, an implied contract arose requiring the application be timely filed.

"A contract is an agreement which creates an obligation. Its essentials are competent parties, subject matter, a legal consideration, mutuality of agreement, and mutuality of obligation." *Ulledalen v. United States Fire Ins. Co.*, 74 N.D. 589, 23 N.W.2d 856, 867 (1946). A contract can be either expressed or implied. An express contract is one the terms of which are stated in words. An implied contract is one the existence and terms of which are manifested by conduct. *N.D.Cent.Code* § 9-06-01. See 17 C.J.S. Contracts § 4 (1963).

In both situations a contract exists between the parties, the only difference being in the [\*101] character of the evidence. *Bismarck Hospital Association v. Burleigh County*, 146 N.W.2d 887, 892 (N.D. 1966). For an implied contract to exist, it must be based on the mutual intention of the parties. *Id.* Clifford Melroe did admit that when he undertook the responsibility of filing the 117 patent application, there was some understanding between himself and Louis Keller, but could not recall exactly what it was. (Depos. of Clifford Melroe, 10-5-79 pp. 56-57). Louis Keller, on the other hand, testified that he did not agree with Clifford's action but reluctantly acquiesced. The court concludes that the evidence is inconclusive as to whether a contractual relationship, i.e., mutuality of agreement, existed but on the basis

of the evidence, it is clear that under the circumstances Clifford Melroe failed in his duty to exercise reasonable care in filing the patent which duty arose out of tort as a matter of law, and not from a contractual agreement between the parties. His breach of that duty was an act of misfeasance sounding in tort, not contract.

#### D. Clark's Liability for Melroe's Negligence

The remaining issues to be discussed on the liability question is Clark's role as [\*102] successor to Melroe and its liability for Melroe's negligence. The evidence discloses that in 1969, Clark purchased the assets of Melroe Company. The general rule is that where one company sells or otherwise transfers all its assets to another company, the purchasing company is not liable for the debts and liabilities of the transferor. *J.F. Anderson Lumber Co. v. Myers*, 296 Minn. 33, 206 N.W.2d 365, 368 (1973). To that general rule, however, the following exceptions have developed:

\* \* \* (1) where the purchaser expressly or impliedly agrees to assume such debts; (2) where the transaction amounts to a consolidation or merger of the corporation; (3) where the purchasing corporation is merely a continuation of the selling corporation; and (4) where the transaction is entered into fraudulently in order to escape liability for such debts.

*Id.* at 368-69. Although the North Dakota Supreme Court has not addressed the matter, the majority of courts which have, have adopted the above stated rule and its exceptions. See e.g., *Acheson v. Falstaff Brewing Corp.*, 523 F.2d 1327, 1329-30 (9th Cir. 1975); *Armour-Dial, Inc. v. Alkar Engineering Corp.*, 469 F.Supp. 1198, 1201 (E.D.Wis. 1979); [\*103] *Goldstein v. Gardner*, 444 F.Supp. 581, 583 (N.D. Ill. 1978); *Araserv, Inc. v. Bay State Harness Horse Racing & Breeding Ass'n, Inc.*, 437 F.Supp. 1083, 1090 (D. Mass. 1977); *Menacho v. Adamson United Co.*, 420 F.Supp. 128, 131 (D.N.J. 1976); *Kloberdanz v. Joy Manufacturing Company*, 288 F.Supp. 817, 820 (D.Colo. 1968); *Turnver v. Bituminous Cas. Co.*, 397 Mich. 406, 244 N.W.2d 873, 878 n.3 (1976); *Arthur Elevator Co. v. Grove*, 236 N.W.2d 383, 391 (Iowa 1975). See generally Annot., 49 A.L.R. 3d 881 (1973). The court anticipates that this also represents the law in North Dakota.

#### 1. The Purchase of Assets Agreement.

In the "whereas" portion of the agreement, Clark agreed to "assume all the liabilities, obligations and covenants of Melroe, except as specifically excluded herein, all as hereinafter provided." (Emphasis added). It is not argued that the term "all the liabilities" does not include tort liabilities, and the court concludes that a proper interpretation is that tort liabilities are assumed. See *Geiger v. Sanitary Farm Dairies*, 146 Minn. 235, 178

N.W. 501, 503 (1920).

Clark contends, however, that the liabilities which Clark assumed are limited to those existing on [\*104] the closing date and that since the court has held that the tort liability did not accrue until at least 1972, it was not assumed.

Section 3.2 of the Agreement provided that on the closing date, Clark would deliver to Melroe a written assumption of Melroe's liabilities as provided in the first paragraph of Section 3.1, the writing to be in substantially the form set forth in an exhibit attached to the Agreement. Such an assumption was delivered (Ex. 717, tab 52) and reads in part as follows:

\* \* \* Clark Equipment Company \* \* \* hereby assumes and agrees to pay or cause to be paid or otherwise discharge or cause to be discharged to the extent that they are existing and outstanding on the date hereof, as they become due and payable, such liabilities of Melroe Company \* \* \* as are to be assumed by Clark Equipment Company under the terms of an Agreement and Plan of Reorganization dated as of August 11, 1969 between Clark Equipment Company and Melroe Company \* \* \*.

This provision must be construed in the context of the whole agreement. To determine what Clark considered to be liabilities existing and outstanding on the date of closing, it is of some aid to look at the type of liabilities [\*105] Clark did assume. Schedule C of the Agreement lists the Owatanna litigation which included a damages claim arising from the antitrust laws. At the time of the closing, no liability arising from that litigation had been determined. Clark assumed the defense of the action, and it appears clear that if Owatanna had prevailed, Clark would have assumed the liability. Listed in Schedule E are other such contingent liabilities which Clark assumed.

The court has previously held that for purposes of the running of the statute of limitations to cause of action existed in 1969. The statute does not begin to run until a cause of action accrues. For a tort action to accrue it must be actionable i.e. both wrong and damage must exist. The contingent liability based on Melroe's duty to Keller and its breach of that duty existed on the date of the closing of Clark's purchase of Melroe Manufacturing, but was obscured by the fact that a patent had in fact been issued and Keller was receiving a royalty from Melroe for his interest in the patent. Clark assumed the royalty obligation and then exercised its legal right to question the validity of the patent. Its success in having the patent invalidated [\*106] led to a disclosure of the wrong that Melroe had done to Keller. However, the acts of negligence, i.e., Melroe's duty and breach of the duty,



though unknown to Melroe and to Keller, existed before this time, and created a contingent liability on the part of Melroe existing on the date of the closing of the purchase of assets.

Clark contends that the tort liability arising from the late filing of the 117 patent, even if existing on the closing date, was specifically excluded from being assumed. In arguing this interpretation, Clark relies on the testimony of Edward Schmults, who acted as Clark's attorney in the purchase, and Richard Swanson, who acted as Melroe's attorney at the time. Mr. Schmults concluded that any liability not disclosed to Clark was not assumed by it, and since the tort liability was not disclosed, it was not assumed. (Tr. Trans. Vol. VI pp. 27-43). He was of the opinion that when Melroe failed to disclose the liability, it breached warranties contained in sections 1.4, 1.8, 1.14 and 1.21 of the Agreement, which under section 3.1, constituted a misrepresentation exonerating Clark. (Tr. Trans. Vol. VI pp. 92 and 118).

Section 3.1 of the Agreement states [\*107] in effect that Clark assumed all the liabilities, obligations and covenants of Melroe on the closing date except " \* \* (ii) any liabilities not disclosed due to any misrepresentation by Melroe herein ." (Emphasis added). The terms of this provision are clear that before nondisclosure would exclude a liability from being assumed by Clark, it would have to be due to a misrepresentation in the Agreement.

In Section 1.4, Melroe was required to represent to a Clark only known claims against it and facts to the best knowledge of Melroe. Melroe had no knowledge of this tort claim at the time of the Agreement. Thus, the clear import of the language of the provision is that Melroe, by not disclosing the liability, did not make a misrepresentation.

Furthermore, in section 1.8 Melroe only represented that to its best knowledge there were no claims relating to the patents other than those disclosed. A failure to disclose an unknown liability is not a misrepresentation.

In section 1.4, Melroe represented only that other than that disclosed, to its best knowledge, it was not threatened with any legal action. Its best knowledge could not have made it aware of the contingent liability. [\*108] Under the facts of the case, section 1.4 is of no help to Clark.

Pursuant to section 1.21 Melroe represented that neither the financial statements of Melroe furnished to Clark and referred to in § 1.4, nor the Agreement, omitted to state a material fact necessary in order to make the statements contained therein not misleading. According to the terms of the Agreement, it was governed by North Dakota law. The intention of the parties as to section

1.21 must be gathered from the entire instrument and not from the isolated clause. *Bjerken v. Ames Sand and Gravel Company*, 189 N.W.2d 366, 374 (N.D. 1971). If reasonably possible, it is to be construed so as to harmonize all of its parts. *Id.* See *N.D. Cent. Code* § 9-07-06. Looking at the language of section 1.21 in that light, it is clear that it must be read together with the provisions already discussed. Accordingly, omitting to state a material fact in the financial statements referred to in § 1.4 would be misleading only if the fact was known to Melroe. And failing to state a material fact elsewhere in the Agreement would be misleading only if the particular provision of the Agreement, such as section 1.8 and 1.14, required [\*109] disclosure. To place a construction on section 1.21 so as to require Melroe to represent that it has not omitted to state a material fact, whether it had knowledge of the fact or not, would cause the "to its best knowledge" language contained in sections 1.4, 1.8, and 1.14 to become meaningless. It is more reasonable to preserve the harmony of the provisions and construe section 1.21 to require Melroe to represent only that to its best knowledge it has not omitted to state a material fact. So construed, it is clear that Melroe was not guilty of any misrepresentation under section 1.21, by not disclosing a tort liability of which it had no knowledge.

The purpose of construing a contract is to ascertain and give effect to the mutual intention of the parties as it existed at the time of contracting. *Great Plains Supply Co. v. Mobil Oil Company*, 172 N.W.2d 241, 247 (N.D. 1969); *N.D. Cent. Code* § 9-07-03. However, the intention of the parties to a written contract must, if possible, be ascertained from the writing alone. *Oliver-Mercer Electric Cooperative, Inc. v. Fisher*, 146 N.W.2d 346, 352 (N.D. 1966); *N.D. Cent. Code* § 9-07-04.

The contract must be read, considered, and construed [\*110] as an entirety, so that all of the provisions of the agreement will be taken into consideration and construed together to ascertain the meaning and effect of the instrument. In other words, the entire instrument, taken by its four corners, must be read and considered to determine the true intent of the parties.

*Gift v. Ehrichs*, 284 N.W.2d 435, 438 (N.D. 1979). Looking to the four corners of the Agreement, its meaning is clear. With inclusive language, Clark agreed to assume all the liabilities and obligations of Melroe except as specifically excluded. The only exclusions are contained in section 3.1 of the Agreement. Clark would not assume any liability arising out of the breach of any representation or warranty of Melroe contained in the Agreement, nor would it assume any liabilities not disclosed due to any misrepresentation by Melroe in the Agreement. The only provisions of the Agreement in which Melroe warranted or represented anything which



would relate to the late filing tort claim are sections 1.4, 1.8, 1.14 and 1.21. In these provisions, however, Melroe only represented that the disclosures were correct to its best knowledge. Since Melroe had no knowledge of the tort [\*111] claim, its nondisclosure of the claim was not due to any misrepresentation contained in the agreement. Therefore, the late filing tort claim was not specifically excluded, and thus according to the terms of the Agreement, was assumed by Clark.

The Agreement is not ambiguous so as to require extrinsic evidence to interpret it. n2 Clark called Attorney Schmults whose testimony would be relevant only if the contract was ambiguous. Schmults' testimony was clearly inconsistent with the plain terms of the Agreement. There is no language in the Agreement which lends any support to his conclusion that Clark intended to assume only those liabilities which were disclosed to it, regardless of whether Melroe had knowledge of the liability. Had Clark had such intentions it could have easily manifested them in the Agreement by exclusively assuming only those liabilities disclosed and listed in the schedules, instead of using the all inclusive language it did. See *Bouton v. Litton Industries, Inc.*, 423 F.2d 643, 652 (3rd Cir. 1970); *Goldstein v. Gardner*, *supra* at 583; *Bippus v. Norton Co.*, 437 F.Supp. 104, 107 (E.D.Pa. 1977).

n2 Clark asserts that an adverse inference may be drawn from the Kellers' failure to call Mr. Perlman, a scheduled expert witness. The Kellers, however, correctly state that the interpretation of the contract was an issue for the court and that extrinsic evidence in the form of oral testimony was of minimal benefit. Thus, no adverse inference for failing to call such a witness will be drawn.

[\*112]

The court concludes that pursuant to the Purchase of Assets Agreement entered into between Clark and Melroe, Clark expressly assumed Melroe's tort liability arising from the late filing of the 117 patent.

## 2. De facto Merger

As stated in *J.F. Anderson Lumber Co. v. Myers*, *supra*, a second exception to the general rule that a purchasing corporation is not liable for the liabilities of the transferor is where the transaction amounts to a merger of the transferring corporation into the receiving corporation. The exception, known as de facto merger, focuses on several factors typically characteristic of a merger rather than a sale. They have been described as follows:

(1) There is a continuation of the enterprise of

the seller corporation, so that there is a continuity of management, personnel, physical location, assets, and general business operations.

(2) There is a continuity of shareholders which results from the purchasing corporation paying for the acquired assets with shares of its own stock, this stock ultimately coming to be held by the shareholders of the seller corporation so that they become a constituent part of the purchasing corporation.

(3) The seller corporation [\*113] ceases its ordinary business operations, liquidates, and dissolves as soon as legally and practically possible.

(4) The purchasing corporation assumes those liabilities and obligations of the seller ordinarily necessary for the uninterrupted continuation of normal business operations of the seller corporation.

*Shannon v. Samuel Langston Company*, 379 F.Supp. 797, 801 (W.D. Mich. 1974). The same or similar factors have been utilized by a number of courts in addressing the issue of when a corporation is responsible for its predecessor's liabilities on the theory of de facto merger. See e.g., *Atlas Tool Co., Inc. v. C.I.R.*, 614 F.2d 860, 870-71 (3rd Cir. 1980), cert. denied. 49 U.S.L.W. 3246 (1980); *Goldstein v. Gardner*, 444 F.Supp. 581, 583-84 (N.D. Ill. 1978); *Araserv, Inc. v. Bay State Harness, Etc.*, 437 F.Supp. 1083, 1090 (D. Mass. 1977); *Ladjevardian v. Laidlaw-Coggeshall, Inc.*, 431 F.Supp. 834, 837 (S.D.N.Y. 1977); *Menacho v. Adamson United Co.*, 420 F.Supp. 128, 133 (D.N.J. 1976); *Ray v. Alad Corp.*, 19 Cal.3d 22, 560 P.2d 3, 136 Cal.Rptr. 574, 578 (1977) (dicta); *Turner v. Bituminous Cas. Co.*, 397 Mich. 406, 244 N.W.2d 873, 879 (1976).

Clark asserts that the de facto merger [\*114] doctrine is limited to social legislation in the area of products liability, and should have no application to the facts of this case. n3 It is true that a number of cases applying that de facto merger doctrine dealt with issues of product liability and the social policy behind that tort theory. See Annot. 49 A.L.R.3d 881 (1973). Clark, however, has not cited nor could the court find any case where a court refused to apply de facto merger because it was not a products liability case. Rather, courts have applied the theory of de facto merger and utilized the Shannon criteria in deciding whether a successor corporation should be held liable for its predecessor's obligations arising from civil violations of § 10(b) of the Securities Exchange Act, e.g., *Goldstein v. Gardner*, *supra*; *Ladjevardian v. Laidlaw-Coggeshall, Inc.*, *supra*, breach of contract, e.g., *Araserv, Inc. v. Bay State Harness, Etc.*, *supra*, and nonpayment of accumulated earnings taxes. E.g., *Atlas Tool Co., Inc. v. C.I.R.*, *supra*. The court concludes that the policy of the de facto merger doctrine is served beyond the scope

of the products liability area, and reaches to areas of personal torts arising from negligence and [\*115] that all the criteria for establishing a de facto merger have been met in the instant case.

n3 Clark also suggests that in the absence of North Dakota law, the court should look to Delaware law. Delaware, however, appears to be in the minority in holding that de facto merger will not be found if the transfer was in the ordinary course of business and the seller received and held consideration. E.g., *Fehl v. S.W.C. Corp.*, 433 F.Supp. 939, 947 (D.Del. 1977). The court anticipates that North Dakota would follow the more widely followed view.

Clark purchased all of Melroe's assets: plants, lands, inventories, patents, trademarks, etc. The purchase price consisted solely of Clark stock certificates. According to their Agreement, the stock was to be delivered to Melroe, and Melroe in turn was to deliver it to the Melroe stockholders. This was done and the exchange of Melroe shares for Clark shares was treated by the Melroe stockholders as a tax free exchange. (Testimony of Donald Ryman, Tr.Trans.Vol. VIII, p. 70). The result was that there was a continuity of shareholders, where the shareholders of the seller corporation became a constituent part of the purchasing corporation. [\*116] There was a continuity of management, personnel, physical location, assets, and general business operations. It became known as the Melroe Division of Clark Equipment. Melroe, in turn changed its name to the Gwinner Holding Company and agreed to cease ordinary business operations, liquidate, and dissolve as soon as legally and practically possible. The Gwinner Holding Company did cease operations, and continued to exist as a shell corporation with no assets or business activities until its charter was revoked in 1974 for failure to file an annual report. Clark's suggestion that the Kellers could have sued the Gwinner Holding Company is untenable. It had no assets to satisfy a judgment. In addition, the former Melroe stockholders agreed not to compete with Clark's business. Furthermore, Clark agreed to assume those liabilities and obligations of Melroe ordinarily necessary for the uninterrupted continuation of normal business operations of Melroe.n4

n4 The Kellers introduced several exhibits, (e.g., Ex. 695) in which the parties referred to the transaction as a merger. However, the fact that the companies might have described their agreement as a "merger" is not controlling. *Ladjevartian v. Laidlaw-Coggeshall, Inc.*, supra at 838.

[\*117]

It is clear that the Clark-Melroe transaction falls squarely within the Shannon criteria. Therefore, the court holds that alternatively to being liable for Melroe's negligence as a result of express agreement, Clark is liable for the tort arising from late filing of the 117 patent, because the transaction by which Clark acquired Melroe was in fact a de facto merger.

#### E. Damages

In North Dakota, the measure of damages for a tort is the amount which will compensate for all the detriment proximately caused thereby. N.D.Cent.Code z 32-03-20. A proximate cause of an injury is "a cause which in natural and continuous sequence, unbroken by any controlling, intervening cause, produces injury, and without which it would not have occurred." *Moum v. Maercklein*, 201 N.W.2d 399, 402 (N.D. 1972). Furthermore, if the defendant had no reason to anticipate that his act would result in injury to anyone, the act is not negligent at all. But if injury to someone is foreseeable, the person guilty of it is liable for the probable consequences, whether he foresaw them or not. *Id.* at 403.

There can be little question that at the time the patent application was untimely filed, a reasonable person [\*118] in the place of Clifford Melroe would reasonably have anticipated economic injury to the Kellers. The court has determined that but for Melroe's negligence, the patent would have been timely filed. It is also apparent, that but for the fact the patent was untimely filed, the Kellers would have benefitted from their license agreement with Clark. The court concludes that the measure of damages in this case is the amount of lost royalties which the Kellers, but for the negligence of Melroe, would have been entitled to receive under the 1971 license agreement from the time they quit receiving royalties in 1972 until the 117 patent would expire in 1983. The court holds that for every skid steer loader which the court has found to embody the invention disclosed and claimed in the 117 patent, manufactured and sold by Clark during this time period in a country where, but for the late filing, there would be a licensed patent, Clark is liable to the Kellers in the amount of fifteen dollars (\$ 15.00).n5

n5 The May, 1971 royalty agreement between Clark and the Kellers included the 117 patent in its definition of "Licensed Patents." Licensed device was defined as " \* \* \* vehicles embodying the inventions or any thereof disclosed and claimed in the Licensed Patents." (Emphasis added). The royalty to be paid was \$15.00 for each licensed device made and sold by Clark, and \$10.00 for each licensed device made or sold by the sublicensee.

[\*119]

But for the late filing of the 117 patent, the Kellers had a contractual right to force Clark to join them in suing competitors for infringing on the 117 patent. Regarding those skid steer loaders manufactured or sold by competitors of Clark, which loaders have been found by the court to embody the invention disclosed in one or more claims of the 117 patent, any competitor making or selling such a loader would have been liable for infringement. 35 U.S.C. § 271. Damages for infringement is that which is adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer. 35 U.S.C. § 284. However, since the Kellers had granted to Clark an exclusive right to make, use and sell the loaders and grant sublicenses, any royalties expected from an infringer would inure to the benefit of Clark, and the Kellers' benefit would be limited to the stipulated royalty for sublicenses contained in the license agreement with Clark. Cf. *Gold Metal Process Company v. E.W. Bliss Company*, 285 F.2d 231, 240-41 (6th Cir. 1960), cert. denied, 366 U.S. 911 (1961). The court further holds that for every skid steer loader which [\*120] the court has found to embody the invention disclosed and claimed in the 117 patent, manufactured or sold by a competitor of Clark's during the pertinent time period in a county where, but for the late filing, there would be a licensed patent, Clark is liable to the Kellers in the amount of ten

dollars (\$ 10.00).

To compute the damages accruing to date, it will be necessary that a determination be made as to the total number of machines embodying claim 9 of the 117 patent made and sold by Clark since it discontinued paying royalties to Kellers, and the total number of machines described in this court's finding No. 80 relative to the 117 patent manufactured or sold by other companies.

Other theories argued by the parties and not discussed in this opinion were considered and found to be without merit.

#### Order

It is ordered final judgment in accordance with this Memorandum Opinion will be entered when the amount of damages has been determined.

It is further ordered a hearing will be held on June 8, 1981, commencing at 9:30 a.m., or on such other date acceptable to the court and mutually agreed upon by the parties, at which time evidence will be taken for the purpose of determining [\*121] the number of machines embodying claim 9 of the 117 patent that are covered by this memorandum opinion.

[See original for Appendix]



LEXSEE 131 USPQ 135

## NORTH BRANCH PRODUCTS, INC. v. FISHER

No. 1033-58

United States District Court for the District of Columbia

*1961 U.S. Dist. LEXIS 3974; 131 U.S.P.Q. (BNA) 135*

Sept. 27, 1961

## COUNSEL: [\*1]

J. HAROLD KILCOYNE, Washington, D.C., and  
ALBERT A. SMITH, Saginaw, Mich., for plaintiff.

ROBERT G. MENTAG, Detroit, Mich., and ALBERT  
W. RINEHART, Washington, D.C. for defendant.

## OPINIONBY:

McGARRAGHY

## OPINION:

McGARRAGHY, District Judge.

## FINDINGS OF FACT

1. Plaintiff, North Branch Products, Inc. is a corporation organized and existing under the laws of the State of Michigan, and has its principal place of business at Millington, Michigan.

2. Defendant, W. Reuen Fisher, is a citizen of the United States, residing in Alberta Canada.

3. Plaintiff is engaged almost exclusively in the manufacture for sale and in selling through a wholly owned subsidiary, Revere Fisher Manufacturing Company a line of drill guide bushings characterized by a usually replaceable helical coil type insert or liner, as described and claimed in one or more letters patents, No. 2,766,084, No. 2,744,424, No. 2,737,425, No. 2,852,322, and No. 2,766,083, all issued to the defendant. The circumstances under which the plaintiff became thus engaged are as related in the following paragraphs.

4. In the early part of 1949, the defendant approached Dr. E. C. Swanson, a medical doctor and suggested the acquisition [\*2] of the facilities of the existing North Branch Products, Inc. and using them to manufacture and sell what defendant described as a revolutionary type of drill guide bushing which defendant represented to Swanson he had invented and had ready for the market

and as represented by patent applications theretofore filed by him. Swanson in turn interested Dr. Edward L. Grimm, an educator, in the venture, and later, other persons. Thereupon and by the end of March, 1949, defendant secured the assignment of the outstanding stock of North Branch Products, Inc., to himself as trustee for the initial investors, and purchased machinery from funds supplied by himself, Dr. Swanson and others.

5. Preliminary and incident to the acquisition of all of the shares of stock in the corporation, it was agreed between defendant and Swanson that defendant would be compensated for use of his invention on a royalty basis of one per cent of the gross sales of the company, or a minimum of \$500.00 per month and a maximum of \$1,500.00 per month with a charge-back for any salaries paid to defendant.

6. Following the acquisition of the stock of the plaintiff, the first shareholders meeting of the reorganized [\*3] company was held on April 1, 1949 at which Swanson was elected President, Grimm as Vice President, and Fisher as Secretary-Treasurer.

7. Thereafter, on April 5, 1949, a written agreement prepared by defendant and submitted by him to Swanson was executed under which defendant licensed to the corporation the exclusive use, right and benefit of patent applications filed by defendant in April, 1948, November, 1948 and December, 1949, upon the same royalty basis as indicated in paragraph 5 above. Actually, there were only two applications which had been filed by defendant. The first was filed December 22, 1948 and was finally rejected by the U.S. Patent Office on January 30, 1952 and abandoned. The second matured as patent No. 2,543,840 issued March 6, 1951 and related to a locking device for a solid steel bushing but had no commercial value.

8. Upon acquisition of the shares of stock in plaintiff corporation as recited in finding 4 hereof, defendant

became and continues to be a principal stockholder of the corporation. He also served intermittently as a director and officer until April 17, 1957. He was in sole charge of all phases of manufacture and sales of drill guide bushings [\*4] and also was in sole charge of experimentation, research and engineering with respect to development of said bushings. At various times until termination of his office as General Manager on April 17, 1957, he held the title of Secretary-Treasurer and General Manager. He was the only person connected with either plaintiff or its subsidiary with any experience and knowledge in the field of drill guide bushings. At all times defendant was paid a salary for his work.

9. All other officers and directors of plaintiff were non-technical men who relied entirely upon the knowledge, training, experience and representations of the defendant with respect to experimentation, development, research, manufacture and sales of its products.

10. The bushings which defendant had represented to Swanson were a revolutionary new type and which were described in the applications covered by the agreement of April 5, 1949, were of no commercial value. For this reason, much time was spent by defendant and other employees of plaintiff in an effort to develop a bushing which would sell. The inventions claimed in the patents which are the subjects of this suit were developed by the defendant by the [\*5] use of plaintiff's machinery, plant facilities, material, employees, on company time and with company funds. At least a portion of the expense of applying for and obtaining the patents was paid out of plaintiff's funds. This experimental work resulted in applications for and issuance of letters patent as follows:

Patent No. 2,744,424, application filed January 10, 1952 and patent issued May 8, 1956.

Patent No. 2,737,425, application filed March 27, 1953 and patent issued March 6, 1956.

Patent No. 2,766,083, application filed March 27, 1953 and patent issued October 9, 1956.

Patent No. 2,766,084, application filed July 29, 1953 and patent issued October 9, 1956.

Patent No. 2,852,322, application filed July 29, 1953 and patent issued September 16, 1958.

11. Prior to issuance of the aforesaid patents, defendant refused and failed to give any information to plaintiff's other officers and directors with respect to the existence and/or status of patent applications. The

defendant pursued a course designed to, and which did, in fact, conceal such information from the other officers and directors. Efforts by them to obtain such information were consistently frustrated [\*6] by the defendant. It was not until March, 1957, when the defendant left Michigan for Canada, that the other officers and directors were able to determine the status and facts with respect to the patents.

12. In March, April and May of 1956, defendant as Secretary-Treasurer and General Manager, caused three checks to be issued to himself and designated them in his own handwriting as payment of royalties. No disclosure of this fact was made to the other officers or the Board of Directors. Defendant first made claim to royalties after he left the company and royalty checks were mailed to him for the months of March, April and May, 1957, in the mistaken belief that any patents which he held had been in fact issued to him on the applications referred to in the agreement of April 5, 1949. When the error was discovered, no further payments were made.

13. There are approximately 170 stockholders in plaintiff corporation who paid approximately \$500,000.00 for their stock. In at least one instance, defendant assured the prospective purchaser of stock, before he purchased, that the company owned the patents.

#### CONCLUSIONS OF LAW

1. The agreement of April 5, 1949 related only [\*7] to the patent applications referred to therein and did not extend to new and patentable inventions disclosed in the patents and patent applications involved in this suit.

2. By reason of defendant's status and position as principal shareholder, officer, director and general manager in sole charge of experimentation, research, development, manufacture and sales, defendant was in a fiduciary relationship with the plaintiff at the time the inventions claimed in the patents were developed and the applications for said patents were filed by, and the patents issued to, defendant.

3. The defendant violated his fiduciary relationship with the company.

4. The plaintiff's cause of action is not barred by either the Michigan or the District of Columbia statutes of limitations.

5. The plaintiff has the equitable right to the patents and patent applications in suit and is entitled to a decree declaring it to be the owner of the legal title thereto.